Closer to you

2017 Annual Report

Contents

Financial Statements

National Bank of Bahrain B.S.C.
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Licensed by CBB as a conventional retail Bank

His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister of the Kingdom of Bahrain

PROFILE

Established in 1957 as Bahrain's first locally owned Bank, NBB has grown steadily to become the country's leading provider of retail and commercial banking services. With a major share of the total domestic commercial banking market and the largest network of 26 branches and 61 ATMs, the Bank plays an important role in the local economy.

At the same time, the Bank continues to diversify and develop capabilities to capture business opportunities in the Gulf region and accompanies its clients in international markets. Our branches in Abu Dhabi and Riyadh lead the way in this initiative.

Publicly listed on the Bahrain Bourse, the Bank is owned 44.94 percent by private and institutional shareholders, mainly Bahrainis, 44.18 percent by Bahrain Mumtalakat Holding Company, which is 100 percent owned by the Government of the Kingdom of Bahrain and 10.88 percent by the Social Insurance Organisation.

Market driven and customer led, the Bank harnesses technology and people skills, enabling its 670 employees to deliver highly professional services for retail, commercial and corporate customers.

PURPOSE, MISSION, VALUES AND PROMISE

Purpose

Enriching the lives of generations.

Mission

To always connect with you, to understand you and help give you what you need, when you need it, in a way that works for you.

Values

Pride: Work with heart

Teamwork: Collaborate for success

Respect: Connect with respect

Responsibility: Own it & embrace it

Ethics: Always do the right thing

Transparency: Be fearlessly transparent

Promise

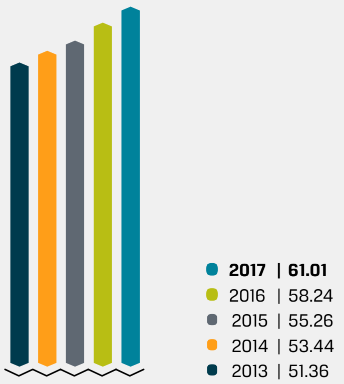
Closer to you

FINANCIAL HIGHLIGHTS

	2017	2016	2015	2014	2013
Earnings (BD millions)					
Net interest income	**73.07**	65.99	59.52	59.58	59.82
Other income	**31.40**	30.88	34.88	29.63	24.83
Operating expenses	**32.99**	34.09	30.10	29.19	27.45
Profit for the year	**61.01**	58.24	55.26	53.44	51.36
Cash Dividend	**31.89**	28.99	26.35	23.52	32.93
Financial Positions (BD millions)					
Total assets	**3,101.54**	2,977.10	2,999.71	2,738.46	2,749.23
Loans and advances	**1,226.85**	1,031.93	1,051.72	780.97	859.39
Investment securities	**1,067.30**	1,092.92	1,094.04	999.49	997.72
Earning Assets	**2,939.66**	2,822.98	2,837.94	2,580.92	2,596.84
Total deposits	**2,617.05**	2,526.44	2,588.16	2,321.34	2,366.25
Customers' deposits	**2,165.21**	2,088.35	2,247.02	2,154.85	2,083.54
Shareholders' equity	**447.94**	414.70	364.76	378.02	363.14
Ratios (Percent)					
Earnings					
Return on average equity	**14.14%**	14.94%	14.88%	14.42%	15.06%
Return on average assets	**2.01%**	1.95%	1.93%	1.95%	1.90%
Earnings per share (fils)	**48**	46	49	47	45
Cost-to-income ratio	**31.58%**	35.19%	31.89%	32.72%	32.43%
Earnings per employee (BD 000's) (FTE)	**98.5**	102.4	98.2	96.5	92.4
Capital					
Shareholders' equity as percent of total assets	**14.44%**	13.93%	12.16%	13.80%	13.21%
Total liabilities to shareholders' equity (times)	**5.92**	6.18	7.22	6.24	6.57
Average total liabilities to average equity (times)	**6.05**	6.67	6.73	6.40	6.92
Capital adequacy 2015-2017: Basel 3 (2012-2014: Basel 2)	**36.28**	35.39	29.99	34.29	31.22

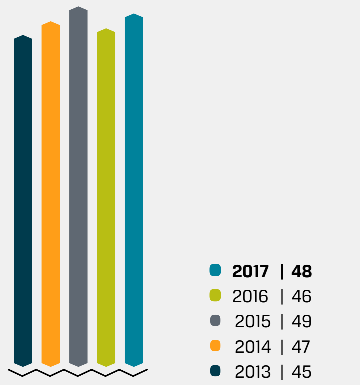
Profit for the Year (BD millions)

61.01



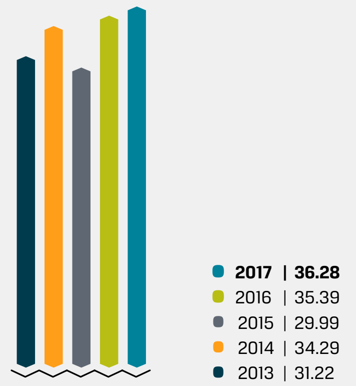
Earnings Per Share (Bahraini fils)

48



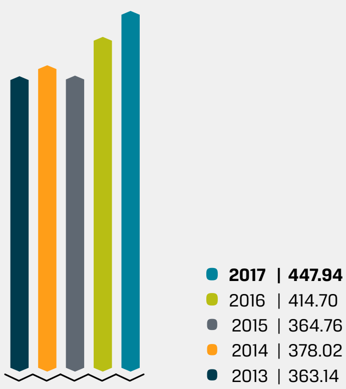
Capital Adequacy (Percent)

36.28



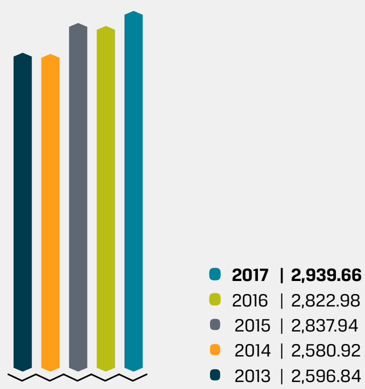
Equity (BD millions)

447.94



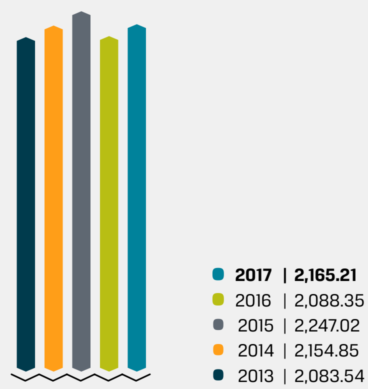
Earnings Assets (BD millions)

2,939.66



Customers' Deposits (BD millions)

2,165.21



Ratings

<table>
<tr><td rowspan="3">Moody's</td><td></td><td>Bank Deposits Long Term</td><td>Bank Deposits Short Term</td><td colspan="2">Baseline Credit Assessment</td></tr>
<tr><td>Foreign Currency</td><td>B2</td><td>NP</td><td colspan="2" rowspan="2">b1</td></tr>
<tr><td>Domestic Currency</td><td>B1</td><td>NP</td></tr>
<tr><td colspan="2" rowspan="2">Fitch</td><td>Long Term IDR</td><td>Short Term IDR</td><td>Viability Rating</td><td>Support</td></tr>
<tr><td>BB+</td><td>B</td><td>bb+</td><td>3</td></tr>
<tr><td colspan="2" rowspan="2">Capital Intelligence</td><td>FCY- Long Term</td><td>FCY- Short Term</td><td>Financial Strength</td><td>Support</td></tr>
<tr><td>BB+</td><td>B</td><td>BBB+</td><td>2</td></tr>
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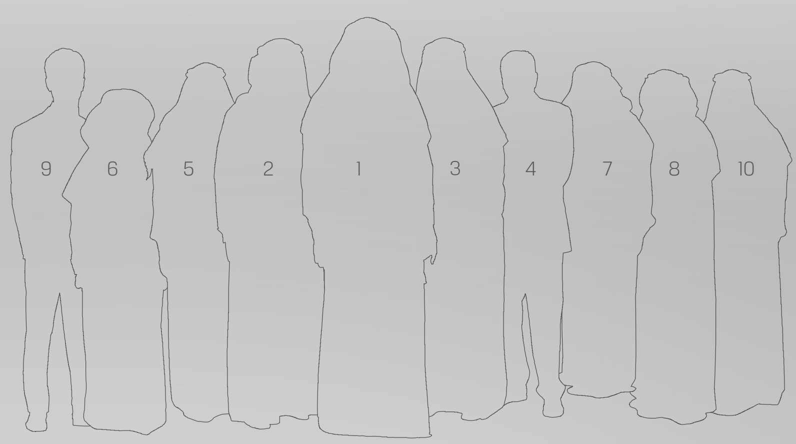
BOARD OF DIRECTORS



1. FAROUK YOUSUF KHALIL ALMOAYYED (Chairman)

Non-executive
Appointed to the Board in 1997
Chairman : Nomination & Remuneration Committee

Chairman: Y. K. Al Moayyed & Sons; Al Moayyed International Group; Ashrafs; Bahrain Duty Free; Bahrain Hotels Company; Ahlia University; National Finance House;
Bahrain Insurance Holding Company.

Director: Economic Development Board (EDB); Investcorp Bank B.S.C.

2. DR. ESSAM ABDULLA FAKHRO (Deputy Chairman)

Non-executive
Appointed to the Board in 2008
Chairman: Executive Committee
Member: Nomination & Remuneration Committee

Chairman: Bahrain Cinema Company, Abdulla Yousif Fakhro & Sons Group and Bahrain Islamic Bank.

3. ABDULLA YOUSIF AKBAR ALIREZA (Deputy Chairman)

Independent
Appointed to the Board in 1984
Chairman: Audit Committee
Member: Nomination & Remuneration Committee

Chairman: Yousuf Akbar Alireza and Sons.

Director: Bahrain Ship Repair and Engineering.
Company Co. BSC.

4. ALI HUSSAIN YATEEM (Director)

Independent
Appointed to the Board in 1985
Deputy Chairman: Executive Committee
Member: Nomination & Remuneration Committee

Chairman: Ali & Mohamed Yateem Group of Companies W.L.L.

5. KHALID YOUSIF ABDUL RAHMAN (Director)

Independent
Appointed to the Board in 2001
Deputy Chairman: Audit Committee

Chairman: The Food Supply Company Limited (Fosco).

Deputy Chairman: Awal Dairy Company. Director and Member of the Executive Committee: Bahrain Ship Repair and Engineering Company.

CEO: National Transport Establishment

6. HUSSAIN SULTAN AL GHANEM (Director)

Non-executive
Appointed to the Board in 2004
Member: Audit Committee

Undersecretary, Human Resources; Prime Minister's Court.

7. FAWZI AHMED KANOO (Director)

Independent
Appointed to the Board in 2010
Member: Executive Committee

Chairman: Abdulrahman Jassim Kanoo Company. WLL.

Deputy Chairman: Yusuf Bin Ahmed Kanoo Group, Bahrain.

Executive Director: Bahrain Ship Repairing & Engineering Company. BSC.

Director: Bahrain Hotels Company.

8. KHALID OMAR AL ROMAIHI (Director)

Non-executive
Appointed to the Board in 2014

Director and CEO: Economic Development Board (EDB).

Chairman: Bahrain Real Estate Investment (Edamah) and Bahrain Development Bank.

Director: Bahrain Mumtalakat Holding Company.

9. MIR ZULFEKAR ALI (Director)

Non-executive
Appointed to the Board in 2014
Member: Executive Committee

Chief Business Development Officer, GEMS Education, formerly Chief Investment Officer, Bahrain Mumtalakat Holding Company BSC (c).

Director: Asturiana De Aleaciones S. A. Company

10. SH. RASHID BIN SALMAN MOHAMED AL KHALIFA (Director)

Non-executive
Appointed to the Board in 2014
Member: Executive Committee

Retired Banker and Independent Consultant for Investment and Banking Services.

BOARD OF DIRECTORS' REPORT

2017 was another successful year for National Bank of Bahrain recording a Net Profit of BD 61.01 million (US$ 162.25 million) compared to BD 58.24 million (US$ 154.88 million) for the previous year, an increase of 4.8 percent. These results reflect the Bank's continued focus on improving revenue streams while maintaining prudent risk management.

FAROUK YOUSUF KHALIL ALMOAYYED
Chairman

Net Profits
2017

BD 61.01 million

Total Assets
2017

BD 3,101.54 million

The Board of Directors of National Bank of Bahrain (NBB) takes pleasure in presenting the 61st Annual Report of the Bank together with the financial statements for the year ended 31 December 2017, marking another year of strong growth and enhanced profitability.

General Operating Environment

Looking at the general economic environment in which the Bank operated during 2017, we saw global economies witness a cyclical recovery reflecting a rebound in investment, manufacturing activity and trade backed by benign global financial conditions, accommodative policies and rising confidence.

Global GDP growth is expected to have risen from 3.2 percent in 2016 to approximately 3.6 percent in 2017 and a further improvement to 3.7 percent to be seen in 2018. Specifically, growth in advanced economies rebounded to around 2.2 percent for the year, driven by capital spending and external demand, with stronger than expected growth in the Euro zone.

Growth in emerging markets and developing economies accelerated to 4.6 percent in 2017 due to solid growth and a firming of commodity exports. That said, there was a significant slowdown in GDP growth for the year in the GCC from 2.2 percent in 2016 to 0.5 percent for the year. Growth was impacted by oil production cuts and fiscal consolidation mainly through spending cuts, which largely negated the positive impact of non-oil growth, which rose by 2.6 percent in 2017 from 1.8 percent in 2016. Though growth is expected to increase by more than 2 percent in 2018, it is likely to remain subdued in the medium term as governments rebalance their finances with rationalisation, fiscal adjustments and new taxes.

Bahrain's economy showed resilience during 2017. The Kingdom recorded annual real GDP growth of 3.6 percent and nominal GDP growth of 6.9 percent in Q3 2017 with full year forecasts predicting real GDP growth of 3.5 percent with the non-hydrocarbon sector expected to show growth of 4.5 percent. Growth was achieved on the back of an increase in infrastructure investments and improvements in the financial stability of the Kingdom.

Overall Performance

Against this background, NBB achieved strong financial results and record Net Profit of BD 61.01 million (US$ 162.25 million) compared to BD 58.24 million (US$ 154.88 million) for the previous year, an increase of 4.8 percent. Key Performance Indicators continue to remain strong with a Return on Average Equity of 14.14 percent (2016: 14.94 percent) and Earnings Per Share of 48.4 fils (2016: 46.3 fils).

The financial position of the Bank remained strong. Total Assets stood at BD 3,101.54 million (US$ 8,248.79 million) as at 31 December 2017 compared to BD 2,977.10 million (US$ 7,917.83 million) as at 31 December 2016, a growth of 4.2 percent. Of particular importance is the growth of 18.9 percent recorded in Loans & Advances. Customer Deposits grew to BD 2,165.21 million (US$ 5,758.55 million) as at 31 December 2017 compared to BD 2,088.35 million (US$ 5,554.12 million) as at 31 December 2016, an increase of 3.7 percent. The Bank has a strong capital base with a Capital Adequacy Ratio of 36.3 percent (before proposed appropriations) as at 31 December 2017.

These results reflect strong operating performance and the growth achieved in revenues and deposits during the year.

BOARD OF DIRECTORS' REPORT (CONTINUED)

They are also the result of the Bank's ability to successfully control costs while pursuing a new strategy focused on diversification that was ratified by the Board during 2017. This new strategy concentrates on achieving growth in existing business lines, the generation of new revenue streams and the expansion of markets. It also focuses on the implementation of wide reaching operational improvements across the Bank. This includes the strengthening of our operational and control frameworks and governance policies. It also encompasses enhancements across the business that allow us to be more customer centric, digitally innovative and responsive.

The year further saw NBB starting to increase its participation in the local economy. This included SMEs and significantly increasing our financing and advisory activities for projects and initiatives that support economic progress in the Kingdom. Similarly, we took steps in 2017 to build our presence in the region by strengthening our branches in Abu Dhabi and Riyadh, in order to capture local business in these dynamic markets, and to be able to better capitalise on cross border opportunities.

We have entered 2018 in a strong position to benefit from more positive economic indicators and expected moderate growth in Bahrain and the GCC in the year ahead. As we move forward, we remain committed to further strengthening our results and the value we provide to our shareholders and those we serve.

Details of the Bank's financial position and performance are further elaborated in the Financial Review and Financial Statements sections that follow.

Recommended Appropriations

Based on the results, the Board of Directors has recommended for approval by shareholders the following appropriations:

BD 000's	
Retained earnings as at 1 January 2017	167,559
2016 appropriations	(49,293)
2017 Net income	61,013
Other changes in Retained Earnings	492
Total	179,771
Cash Dividend (25 percent)	31,886
Donations and contributions	3,051
Transfer to general reserve	19,133
Retained earnings carried forward after 2017 appropriations	125,701
Total	179,771

The Board has also proposed to the shareholders a bonus issue of BD 12.76 million at the rate of one additional shares for every ten shares held (10 percent). The bonus share issue is proposed to be made through the utilisation of BD 12.76 million from the General Reserve, which is subject to regulatory approvals. Total cash and stock dividend pay outs for 2017 amount to 35 percent.

Donations and Contributions

The Board is recommending the allocation of BD 3.05 million (US$ 8.11 million) to the Donations and Contributions programme, representing 5 percent of the Bank's 2017 profits available for distribution. The cumulative allocation under the programme, since its inception in 1980, now stands at BD 45.73 million (US$ 121.62 million).

Details of the Bank's Donations & Contribution programme are contained in the Corporate Social Responsibility section of the Annual Report.

Corporate Governance

The Board recognises that good governance is integral to the success of any organisation and is fully committed to protecting the interest of all stakeholders through robust and international standard governance policies. The Bank is in compliance with the requirements of the Code of Corporate Governance issued by the Ministry of Industry and Commerce and the Central Bank of Bahrain's Rulebook. A detailed report on the Bank's compliance with the Corporate Governance Code is elaborated on in the Corporate Governance Report section of the Annual Report. The Report also contains disclosures on the number of shares held as at 31 December 2017 by Directors and trading during the year in the Bank's shares by Directors, senior management, approved persons and their related parties.

Acknowledgements

The Directors, on behalf of the shareholders, take this opportunity to extend their gratitude to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, His Royal Highness Shaikh Khalifa bin Salman Al Khalifa, Prime Minister, His Royal Highness Shaikh Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister and the many government ministries and institutions. We would also like to acknowledge the ongoing support and invaluable guidance provided to us by the Ministry of Finance and the Central Bank of Bahrain.

The Directors also express their appreciation to our loyal customers for their continued partnership with NBB and their confidence in the Bank. In concluding, I would like to congratulate our management team and all employees for their outstanding performance and their contributions to the achievements of the past year. We look forward to a strong 2018 and to keeping you apprised of NBB's progress in the year ahead.

Farouk Yousuf Khalil Almoayyed
Chairman
29 January 2018

These results reflect strong operating performance and the growth achieved in revenues and deposits during the year. They are also the result of the Bank's ability to successfully control costs while pursuing a new strategy focused on diversification that was ratified by the Board during 2017.

STATEMENT OF THE CHIEF EXECUTIVE OFFICER

"The robust growth of the operating profit by almost 13.86 percent illustrates the efforts achieved in 2017 in terms of revenue growth and cost management."

JEAN-CHRISTOPHE DURAND
Chief Executive Officer

Growth in Operating Profit
2017

13.86 percent

Cost to Income Ratio
2017

31.58 percent

The year 2017 was marked by a continued growth both in terms of activities and profits in a context of subdued growth in the GCC. Importantly it marked the year where NBB embarked on its transformation journey to position itself as a leading player in the market place in a fast changing banking industry. We are proud to have been able to record a significant increase in our revenues as well as an efficient control of costs strengthening our operations and controls. This positive evolution enabled NBB to report record profits for the year at BD 61.01 million and further improve its key ratios such the capital adequacy ratio at 36.28 percent. The robust growth of the operating profit by almost 13.86 percent illustrates the efforts achieved in 2017 in terms of revenue growth and cost management.

Our teams' ability to deliver these results lies in the institution's robust financial foundations and in the market leadership it enjoys and continues to build upon. They are also the fruits of the implementation of a new vision and of the transformative journey we have embarked on, moving forward towards a bank for the future.

Shaping this journey starts with the implementation of a new business strategy, developed by the management team and ratified by the board in 2017, which focuses on expanding the business mix in order to participate more effectively in the local economy, on diversifying the client base and on driving innovation and reinforcing customer centricity. With these core objectives, NBB aims at ensuring its ability to grow sustainably, at improving efficiency and further strengthening its position at the forefront of the banking industry and as Bahrain's leading partner for economic development.

In order to roll out this new strategy, we recognize that our human capital is at the core of its successful implementation and we devoted a lot of efforts in 2017 to attracting new talent and training our colleagues in order to avail them of the skills required to execute our plans in an effective manner. The creation of a senior Human Resources and Talent development position reporting directly to the CEO and the building of a highly professional team to lead these efforts were key in this respect. At the same time the senior management team was strengthened by seasoned professionals responsible for their area of expertise and its members are now part of a newly formed management committee. Among the new executive positions which were added, NBB's first Chief Operating Officer will be leading the infrastructure modernisation efforts, the Chief Strategy Officer will be driving the implementation of the new strategy and in particular the digital banking initiative and the Chief Human Resources and Officer will contribute to making NBB the employer of choice in the banking sector. To reflect our new ambitions, the organisation has been revised and aligned with industry standards, emphasizing the responsibilities of the managers and the introduction of new corporate values to guide our employees.

Other senior specialist hires were made during the year in specific areas earmarked for development in our business strategy as well as in critical support functions to reinforce the infrastructure and support growth, while meeting global best practices as well as the expectations of our regulators and international partners.

Employees' numbers grew by 85 during 2017. Our deep commitment to the development of local talent at all levels in the institution is consolidated with a strong local Bahrainisation ratio, standing at 93 percent at year-end. A large proportion of these new hires were young local talents, who will grow with the Bank and be part of the transformation journey by bringing new perspectives. They will also enable us to better understand and attract the youth segment, which we are targeting as part of our efforts towards diversification. The overwhelmingly young demographic across the region

STATEMENT OF THE CHIEF EXECUTIVE OFFICER (CONTINUED)

creates a special opportunity on which we aim to capitalise with the right people in place and through our efforts to modernise the Bank and provide the digital access and innovations they demand. Our commitment to talent development is further illustrated by the fact that 95 percent of NBB employees across all levels and departments taking part to these programs. Our investments in training, supports higher employee retention while also giving us the relevant skills and knowledge to better serve clients and execute our vision and strategy.

In terms of business growth and diversification during the year, we were encouraged to note that all business lines recorded growth while progress was shown in the expansion of market share and of the scope of our offering. Very importantly, we undertook thorough research to better understand our different customers, the services they need, the expectations they have for the Bank to be in a position to adapt its product development and marketing activities accordingly. As a result, we saw growth in deposits, loans and uptake in other products.

We also initiated new streams of revenues, broadening our participation in the local economy and strengthening our regional presence. Building on our strong capital base, our adequate liquidity and the presence of expert teams, we stepped up financing activities during the year. As a result of our efforts to build a debt capital markets and syndication capability, we were mandated for the first time by the Kingdom of Bahrain as lead manager and joint arranger for a US dollar multi-tranche bond issuance.

Large corporate and sovereign financing opportunities are an area where NBB aims at playing a more active role, especially with the reducing interest of global banks. To capitalize on these opportunities, we have established a dedicated Corporate and Institutional Investment Banking division during the year offering structured finance, debt capital markets advisory and a professional coverage targeting large players in the Kingdom and the countries where we are present.

To achieve these objectives, we recruited a team of seasoned professionals with a deep GCC and international capital markets experience.

In line with our efforts to diversify and expand our client base, we worked more actively with our smaller and medium enterprises customers and managed to attract a number of new clients in this strategic segment. These smaller companies are the backbone of the local economy and as such we are committed to support them to grow and to contribute to the acceleration of economic development in Bahrain.

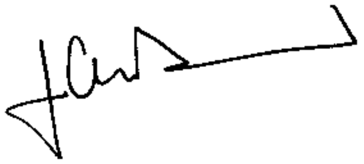
Looking at our activities regionally, we took steps to further activate our presence in Abu Dhabi and Riyadh, where we have existing operations and have devised a new business plan for growth. Being the only Bahraini bank to hold a licence in Saudi Arabia, we have a strong card to play and aim at becoming a preferred institution to promote and finance the business and investment between the two friendly countries. During the year, we reinforced the teams in each of these markets and started implementing our new vision.

From an operational point of view, significant enhancements were undertaken throughout 2017 in order to ensure a robust infrastructure and in line with modern industry standards. As part of our digital journey, we appointed a consultant in order to assess the starting base and advise on this strategic initiative, which will be core to our transformation. In the meantime, we started improving the standard of our existing digital platforms for customers by launching new corporate and retail internet banking websites and mobile banking. The ATM network was similarly upgraded, and plans devised for the optimisation of the Bank's entire branch network, which remains the largest in Bahrain.

With our business and operational transformation now well underway, we have entered 2018 with confidence. We have a robust team and a growth strategy in place. We will stay focused on diversifying our business while controlling our risks and better serving and growing our customers through digital innovation and other enhancements to our offering and delivery capabilities. At the same time, the ongoing reinforcement of our operational framework will remain at the centre of our preoccupations.

In 2018 and beyond, we will ensure that the institution and its teams stay true to their new core values, which will continue to guide them to grow and transform harmoniously. We will in particular take a collaborative approach to our growth and value creation, emphasising the importance of teamwork both internally and in our relationships with customers. Defining these relationships with a deep commitment to ethical and transparent behaviour, accountability, respect and the highest levels of transparency. We take great pride in these values and the work that we do and look forward to building on the success and momentum that has been achieved over the past year.

With the improving economic outlook for the region in 2018 driven by higher oil prices and economic reforms. This trend supports NBB's vision to further grow its core businesses, continue to strengthen its regional footprint in a prudent manner and to capitalize on new opportunities to expand our participation in the local economy. Pursuing these and other avenues, we look forward to enhanced results and returns in 2018.



Jean-Christophe Durand
Chief Executive Officer

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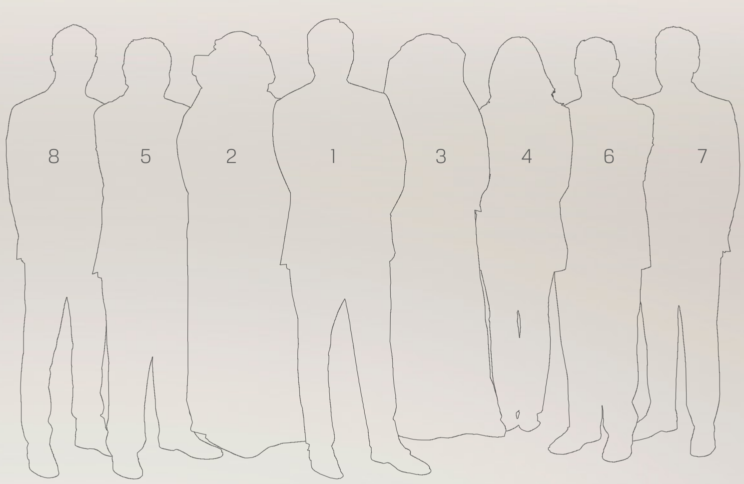
EXECUTIVE MANAGEMENT



1. Jean-Christophe Durand
Chief Executive Officer

Mr. Jean-Christophe Durand joined the National Bank of Bahrain (NBB) as CEO in December 2016 where he continues to focus on reinforcing and expanding the Bank's role as a driver for economic growth and development. He brings to his role over 36 years of international and regional banking and finance experience gained from senior leadership roles at leading global banking institutions of which 29 years are in the GCC. Previously, and for 20 years, he was the CEO of BNP Paribas Middle East & Africa region for Corporate & Institutional Banking and Asset Management.

At NBB, he is a member of Asset Liability, Business Review, Development & Planning, Operational Risk Management, Credit and Human Resources committees. Mr. Durand holds several Board positions locally and regionally. He is a Director for Bahrain Telecommunications Company (Batelco) - (Vice Chairman of Batelco's subsidiary Umniah in Jordan), Gulf Air and Bahrain Institute of Banking & Finance (BIBF). Mr. Durand received the "Legion d'Honneur" from the Government of France and is a graduate for ESSEC (Ecole Superieure des Sciences Economiques et Commerciales) in Paris.

2. Abdul Aziz Abdulla Al Ahmed
Chief Executive – Retail, Commercial & SMEs

Executive Diploma from University of Virginia, USA. He also attended a number of training courses inside the Kingdom of Bahrain and abroad. Mr. Abdul Aziz joined NBB in 1974. Member of Asset/Liability Committee, Business Review, Development and Planning Committee and Credit Committee B.S.C.. Vice Chairman of the Automotive Board for National Motor Company W.L.L. (NMC), Tas'heelat Automotive Company S.P.C. (TAC), Tas'heelat Car Leasing Company W.L.L. (TCL), Bahrain; and Tas'heelat for General Trading and Cars W.L.L. (TGTC), Erbil-Kurdistan, Republic of Iraq. Bahrain. Mr. Abdul Aziz has over 44 years of banking experience. He assumed his present position in 2011.

3. Hussain Sayed Ali Al Hussaini
Chief Executive – Treasury, Capital Markets & Wealth Management

Mr. Al Hussaini joined NBB in 1982 and assumed his present position in 2017. He is also a member of the Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee and Credit Committee. Additionally, Mr. Al Hussaini serves as Vice Chairman of the Board of Directors and Vice Chairman of the Investment Committee of the Securities and Investment Company (SICO), Board Member and Executive Committee Chairman of Esterad Investment Company, Chairman of Nomination & Remuniration Committee of Esterad. Member of Board of Trustees in Bahrain Polytechnique. Member of the deposit Protection and unrestricted Investor accounts. He holds an MBA in Marketing and Management, DePaul University, USA; a PMD (Programme for Management Development) from Harvard Business School, Boston, USA; and a B.A. in Economics, Concordia University, Canada. He is also a Member of Delta Mu Delta - Chicago USA, Interarab Cambist Associations, International Securities Market Association, Harvard Business School – Alumni Club, USA, Bahrain Financial Market Association.

4. Dana Buheji
Chief Human Resource Officer

Ms. Buheji joined NBB in 2017 as the Chief Human Resource Officer. Her focus lies on ensuring the Bank effectively maximises its talent base, invests in the training and development of staff and effectively recruits and retains staff to support the Bank's efforts to grow and diversify. She has over 16 years' overall experience in the areas of financial analyses and HR talent management after working with Bahrain Economic Development Board (EDB), Bahrain Mumtalakat Holding Company, Ministry of Finance and Ahli United Bank. She is also a member of the Nomination and Remuneration Committee and the Business Continuity Planning Committee in the Bank. Additionally, Dana serves as a Member of HR and Remuneration Committee of Bahrain Association of Banks (BAB). She holds a Certificate in Personnel Practice (CPP), London, UK and B.A. in Commerce, Concordia University, Canada.

5. Iain Mcgregor Blacklaw
Chief Operating Officer

Mr. Blacklaw joined the Bank in 2017 bringing to his role more than 30 years of experience as an international banking and finance executive who has built and run large scale operations across various sectors including banking and technology. His focus is on helping NBB strengthen its structures and foundations to create a more competitive Bank. This includes realising greater efficiencies and the streamlining of operations through the optimisation and modernisation of practices both on the brick-and-mortar level and through the adoption of the latest technologies.

6. Bruce Charles Wade
Chief Risk Officer

Mr. Wade joined NBB in 2014. He brings to NBB more than 35 years of banking experience including roles at: Saudi Hollandi Bank, Riyad Bank, Citibank and Bank of Tokyo Group. He is currently Chairman of the Operational Risk Management Committee and Information Security Committee, Member of the Management Committee, Credit Committee, Asset/Liability Committee, Business Review, Development and Planning Committee and IT Steering Committee. He holds an MBA and Bachelor of Applied Science from Queensland University of Technology, Australia and a Graduate Diploma, Applied Finance and Investment, Securities Institute of Australia. He is also a Fellow Australian Institute of Company Directors, Fellow Financial Services Institute of Australasia, Member Finance and Treasury Association Limited, Senior Certified Treasury Professional and is Chairman of the Risk Management Committee, Bahrain Association of Banks.

7. Yaser Alsharifi
Chief Strategy Officer

Mr. Alsharifi joined NBB in 2017 as the Chief Strategy Officer after working with Al Rajhi Holdings and Ernst & Young. He has over 20 years' experience in investment management and corporate finance across the GCC, Europe and the US. He is responsible for innovation, strategy development and implementation, the project management office, business development as well as the operations in Saudi Arabia and the United Arab Emirates. He is also a member of the Management, Asset/Liability, and Credit Committees. Additionally, Mr Alsharifi serves as a board member of Edamah, Bahrain Bourse, Bahrain Clear, and Bahrain Car Parks Company BSC. He holds a B.A. in Business Administration from the University of Massachusetts at Amherst.

8. Richard Gareth Hicks
Chief Marketing Officer

Mr. Hicks joined NBB in 2016 as the Chief Marketing Officer after more than 30 years of banking and marketing experience with Nat West, RBS and HSBC where he was part of the Global Marketing Team based in the London Head Office working across all business lines and geographies. His specialist areas are digital marketing, customer experience and digital transformation. He leads the marketing and communications team responsible for developing the NBB brand and supporting the business' goals through engaging marketing events and campaigns, targeted sponsorships and a sophisticated PR and communications strategy. He places customer insight and user experience at the heart of the banks initiatives with a growing focus on digital channels. He is a long standing member of the Chartered Institute of Marketing. He has a BA (Hons) degree in Economics from De Montfort University in UK.

STRATEGY

Overview

As the Bank looks towards the future, it does so in view of the current challenging environment of technological disruption, global geopolitical tensions and an evermore complex regulatory regime. These dynamics coupled with the knowledge that the business drivers that contributed to the successful financial performance of the Bank is challenged, the management team set a plan to transform how business is done to maintain and build on a legacy of leadership and success.

Strategy & Business Development

Identifying, analysing and planning for the challenges and opportunities that arise from such drivers is the basis of establishing Strategy and Business Development department The department is tasked with leading the digital transformation of the business in alignment with the business strategy endorsed by the Board of Directors. The transformation is centered around how to better serve our existing loyal client base and attract a new generation of customers capitalizing on the depth of our human and financial capital. Such new customers could be retail customers or budding entrepreneurs who are launching new ventures or established players expanding their businesses. The transformation impacts people, processes and systems and touches every aspect of how banking is done.

The Bank's strategic plans identify areas of value for the business through its digital transformation, and has set the criteria for opportunities of organic and inorganic growth. The Department has been structured around four key disciplines. The Project Management Office (PMO) prioritizes critical projects, defining the key milestones and stakeholders, and monitors the performance and delivery of such projects. In addition, the Department is responsible for documenting the Bank's business plan, including key performance indicators (KPIs) and a dashboard to monitor and drive the performance of the Bank in line with its strategic plan. It is also responsible for innovation and Fintech driving the Bank's digital transformation.

Digitilisation & FinTech

The digitilisation programming goes beyond the customer interface in its omni-channel approach and will involve internal processes adopting Fintech and other solutions. The client centric focus will be delivered through enhancement of all touch points and be designed to improve the offering in serving our customers. This is a collaborative effort with projects and initiatives involving multidisciplinary teams to deliver excellence to clients. Preparation to embark on this journey has been established through the elevation of the role of HRTD and the alignment of the organization structure to reflect how the business plans to operate in the future addressing the people needs through ongoing training and development and embracing the values that are the foundation of the Bank's culture. Detailed analysis and research has been completed to define the architecture and road map for the IT and digital needs of the business and processes are being reshaped to streamline them in line with the brand promise. Agility, speed, innovation and a keen understanding of the customer and the risks associated with the business will set the Bank on its chosen competitive track.

The Bank is well integrated into the technological and Fintech ecosystem fostered by the Economic Development Board and supported by the Central Bank of Bahrain and plans to be an active member of the Bahrain Fintech Bay and other such initiatives. As for inorganic growth opportunities, these will be selected to solidify the Bank's competitive advantage for the future with a view on enhancing shareholder value.

Human Resources & Talent Development

In line with NBB's strategy to pursue further diversification and innovation across the Bank, 2017 saw a sharpened focus on ensuring that the right people and relevant competencies are in place to support the Bank in achieving its future objectives and customer centric driven growth. A number of new executive management positions that previously did not exist within the Bank, have been established in order to cement NBB's market leadership and ensure enhanced operational and financial performance. Underscoring the importance of human resources to the fulfillment of these objectives, this function was elevated during the year with the Chief Human Resources Officer now reporting directly to the CEO and assuming a position on the Bank's management committee and therefore part of the strategic vision.

During the year Human Resources & Talent Development worked diligently to identify and attract new talent, bolster training and development and, importantly, created a progressive culture built on strong internal engagement through the initiation of Town Hall meetings for all staff, CEO Breakfasts and other initiatives that bring the Bank together.

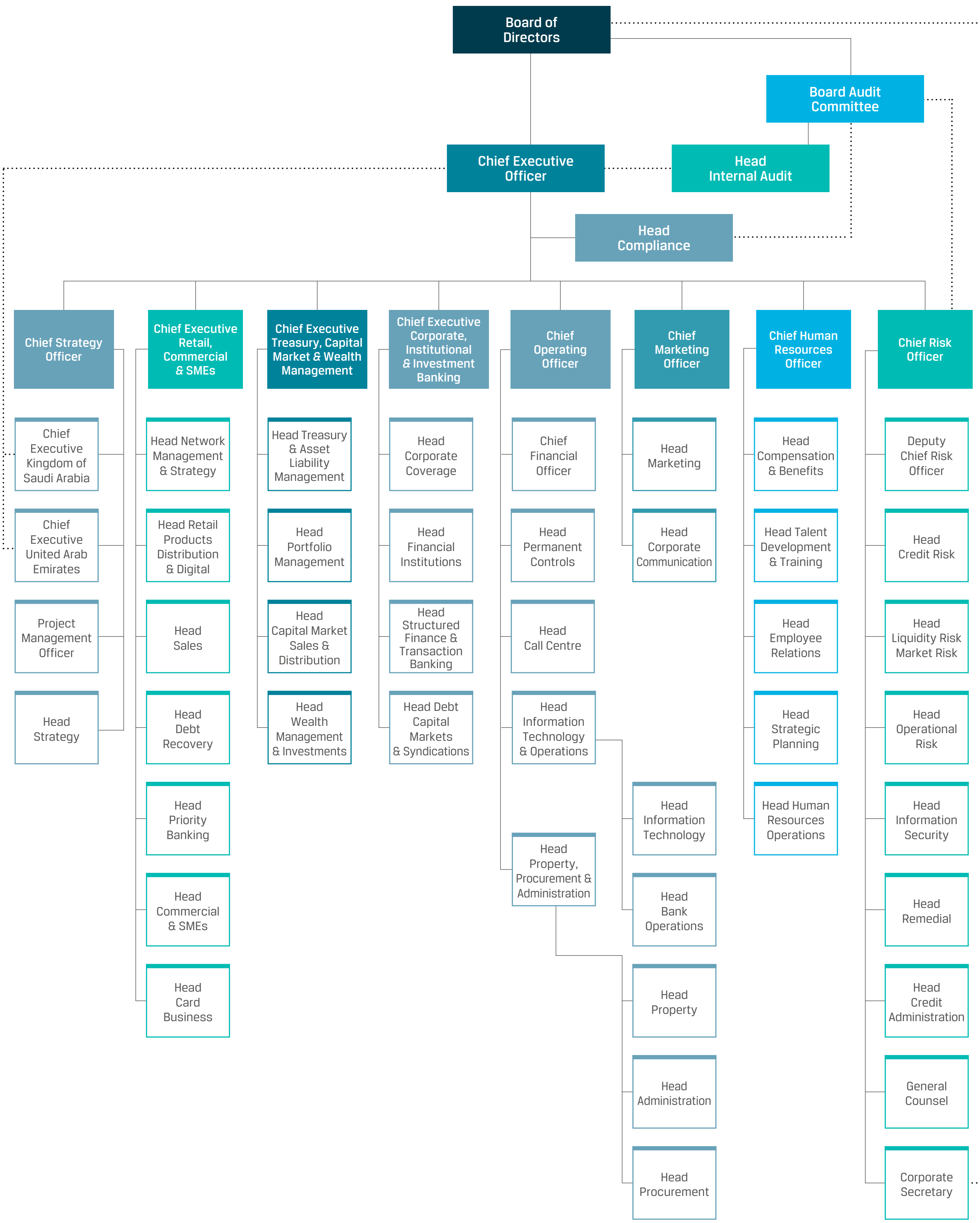
The Bank's newly established Internship Programme saw the enrolment of 139 fresh Bahraini graduates of whom 79 were hired (44 supported by Tamkeen). With these additions, NBB closed the year with 670 employees and a 93% Bahrainisation rate underscoring our deep and continued commitment to local talent.

Training

Further emphasis was also placed on training and professional growth. This included the encouraging of self-development through the pursuit of professional certification programmes and other available training, greater opportunities for internal job hiring and career progression, initiatives to better recognise and empower talent and a Leadership Programme to support succession planning.

Across all levels and areas of the Bank, participation in training increased significantly. In 2017, NBB launched an HR Innovation Lab responsible for the creation and administration of key customised retail training programmes. NBB was the first bank in Bahrain to host "Retail Simulation" and "Operation Simulation" training initiatives through BIBF. We also introduced "Customer Centric" training for all front-line staff inclusive of sign language resulting in sign language expertise in all branches.

ORGANISATION STRUCTURE



CORPORATE GOVERNANCE REPORT

The Board of Directors is responsible for the overall governance of National Bank of Bahrain. The Board ensures that high ethical standards are established across the Bank and regularly reviews the Bank's compliance with the Central Bank of Bahrain (CBB) regulations regarding corporate governance. The Board recognizes that good corporate governance is a vital ingredient in the creation of sustainable shareholder value and protecting the interests of all stakeholders.

Maintaining the best standards of corporate governance has provided the Bank's customers, counterparties, shareholders, regulators, employees and rating agencies with a high degree of confidence in our institution; achieved an appropriate balance between long-term growth and short-term objectives; created a sound portfolio of assets, a stable customer base, income diversity as well as the ability and resources to face economic cycles and uncertainties. The Board has set the moral tone for the Bank with a high degree of intolerance for any instances of malpractice, fraud and unethical behaviour and ensured the highest degree of adherence to laws, rules and regulations.

Board of Directors:

The Board's composition is governed by the Bank's Memorandum and Articles of Association and comprises of eleven members. Four members of the Board of Directors are appointed by Bahrain Mumtalakat Holding Company, which holds 44.18% of the Bank's share capital and one member by Social Insurance Organization, which holds 10.88% of the Bank's Share Capital. The remaining six members of the Board of Directors are elected by secret ballot at the ordinary general meeting of the shareholders, by a simple majority of valid votes. The five members of the Board of Directors elected by the shareholders remain in office for a term not exceeding three years, which may be renewed. In order to be eligible for being nominated for directorship, the individuals concerned should meet the 'fit and proper' criteria established by the Central Bank of Bahrain and their appointment is subject to prior approval by the Central Bank of Bahrain. The present Board of Directors was elected at the Annual General Meeting in 2015 and their term expires at the Annual General Meeting to be held in 2018.

On joining NBB's Board, all Directors are provided with a "Directors Kit" which includes the Bank's Memorandum and Articles of Association, key policies, terms of reference of the Board and its sub-committees and Corporate Governance guidelines. Induction sessions are also held with the Chairman and Chief Executive Officer which focuses on business profile, opportunities, challenges and risks faced by the Bank.

In accordance with the definitions stipulated by the CBB, Directors are categorized as independent, executive and non-executive. The Board currently comprises of four independent directors and six non-executive directors. The roles of the Chairman and the Chief Executive Officer are separate and exercised by different persons.

The Board's primary responsibility is to deliver sustainable value to all stakeholders by charting the strategic direction of the Bank as well as setting the risk appetite and the overall capital structure of the Bank. The Board is also responsible for monitoring Management's running of the business within the agreed framework. The Board seeks to ensure that the Management strikes an appropriate balance between long-term growth and the short-term objectives. The Board is ultimately accountable and responsible for the affairs and performance of the Bank. Accordingly, the main functions of the Board are:

- Maintain an appropriate Board Structure.
- Maintain an appropriate management and organization structure in line with the Bank's business requirements.
- Plan the strategic future of the Bank, approve annual business plans, approve and monitor major initiatives.
- Monitor the operations framework of the Bank and the integrity of internal controls.
- Ensure compliance with laws and regulations.

- Monitor the Bank's performance and approve financial results, ensure transparency and integrity in stakeholders reporting including financial statements.
- Evaluate periodically the Board's own performance including that of Board sub-committees.
- Assure equitable treatment of all shareholders including minority shareholders.

The Chairman is mainly responsible for the leadership of the Board, ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities.

The Board of Directors meets regularly throughout the year and maintains full and effective control over strategic, financial, operational, internal control and compliance issues. As per its terms of reference, the Board shall meet at least once every calendar quarter.

In its role as the primary governing body, the Board of Directors provides oversight for the Bank's affairs and constantly strives to improve and build on the Bank's strong corporate governance practices. The business performance of the Bank is reported regularly to the Board of Directors. Performance trends as well as performance against budget and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board and are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

The Board of Directors has unlimited authority within the overall regulatory framework. The Board has delegated approval authorities to its sub-committees and members of Management; all transactions falling outside the delegated limits are referred to the Board for approval. In addition, the Board approves on a yearly basis the annual budget, risk strategy and operating limits for various activities of the Bank.

Committees of the Board of Directors:

The Board has set up several sub-committees which provide effective support to the full Board in carrying out its responsibilities. These include the Executive Committee, the Audit Committee and the Nomination & Remuneration Committee.

Executive Committee:

The Executive Committee comprises of not more than six Board members selected and appointed by the Board, with at least two of the members being independent directors. The Committee shall meet at least four times a year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibilities with regard to lending, investment, as well as any other matters not delegated to a specific Board Committee. Accordingly, the Committee is empowered to approve specific credit and investment proposals, review budgets, plans, major initiatives for eventual submission to the Board for approval, and to monitor the Bank's performance against business plan objectives.

Audit Committee:

The Audit Committee comprises of three non-executive Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least four times a year. The primary function of the Committee is to reinforce the internal and external audit process and assist the Board of Directors in fulfilling its responsibility in ensuring an effective system of internal control and risk management. In addition, the Committee is also responsible for reviewing and recommending changes to the Bank's corporate governance policy framework based on regulatory requirements or industry best practices. The Audit Committee is responsible for overseeing the selection of the external auditors for appointment and approval at the shareholders' meeting, reviewing the integrity of the Bank's financial reporting, reviewing the activities and performance of internal audit function and reviewing compliance with relevant laws, regulations and code of conduct.

The Audit Committee is supported by the Internal Audit Department, which regularly monitors the system of internal controls. Monitoring includes an assessment of the risks and controls in each operating unit and matters arising therefrom are reported to the Audit Committee on a regular basis.

Nomination & Remuneration Committee:

The Nomination & Remuneration Committee comprises of four Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least twice a year. The role of the Committee is to assist the Board in fulfilling its responsibilities with regard to the nomination and remuneration policy of the Bank. The Nomination & Remuneration Committee has the mandate for identifying persons qualified to become members of the Board, CEO, CFO, corporate secretary, and any other officers as considered appropriate by the Board and recommending them to the Board. The Committee also has the responsibility of reviewing and recommending the remuneration policies for the board of directors and senior management.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board meetings and attendance:

The Board of Directors and the sub-committees of the Board meet regularly to effectively discharge their responsibilities. For meeting the requirements of the Corporate Governance Code and the CBB Rulebook, the Bank considers attendance of Directors at Board and sub-committee meetings. A summary of the Board meetings and sub-committee meetings held during the year 2017 and attendance are detailed below:

	Board		Executive Committee		Audit Committee		N & R C		Total		
Name of the Director	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	Total No of meetings	Meetings attended	% of Meetings attended
Farouk Y K Almoayyed Chairman	8	8					7	7	15	15	100%
Dr. Essam A Fakhro Deputy Chairman	8	8	4	4			7	7	19	19	100%
Abdulla Y Akbar Alireza Deputy Chairman	8	4			4	2	7	7	19	12	63%
Ali Hussain Yateem Director	8	8	4	4			7	6	19	18	95%
Khalid Y Abdul Rahman Director	8	8			4	4			12	12	100%
Hussain S Al Ghanem Director	8	8			4	4			12	12	100%
Abdul Razak Al Qassim Director	8	2	4	1	Left the Board in 1st Quarter						
Fawzi Ahmed Kanoo Director	8	7	4	3					12	10	83%
Mir Zulfekar Ali Director	8	4	4	2					12	6	50%
Khalid Omar Al Romaihi Director	8	5							8	5	62%
Sh.Rashid Bin Salman Al Khalifa Director	8	8	4	4					12	12	100%

Includes attendance through conference calls

Dates of meetings and attendance details:

Board Meetings: Total number of meetings held: 8

	Meeting dates							
Members	30/1/2017	8/3/2017	19/4/2017	6/6/2017	14/6/2017	19/7/2017	18/10/2017	22/11/2017
Farouk Y K Almoayyed Chairman	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Essam A Fakhro Deputy Chairman	✓	✓	✓	✓	✓	✓	✓	✓
Abdulla Y Akbar Alireza Deputy Chairman	✓	✓	✓	×	×	×	×	✓
Ali Hussain Yateem Director	✓	✓	✓	✓	✓	✓	✓	✓
Khalid Y Abdul Rahman Director	✓	✓	✓	✓	✓	✓	✓	✓
Hussain S Al Ghanem Director	✓	✓	✓	✓	✓	✓	✓	✓
Abdul Razak Al Qassim Director	✓	✓	Left the Board in 1st Quarter					
Fawzi Ahmed Kanoo Director	✓	✓	✓	✓	✓	✓	×	✓
Mir Zulfekar Ali Director	✓	✓	×	×	×	×	✓	✓
Khalid Omar Al Romaihi Director	✓	✓	✓	✓	×	×	✓	×
Sh. Rashid Bin Salman Al Khalifa Director	✓	✓	✓	✓	✓	✓	✓	✓

Includes attendance through conference calls

Executive Committee Meetings: Total number of meetings held: 4

Members	Meeting dates			
	15/2/2017	14/6/2017	24/9/2017	3/12/2017
Dr. Essam A Fakhro Deputy Chairman & Chairman of Executive Committee	✓	✓	✓	✓
Ali Hussain Yateem Director & Deputy Chairman of Executive Committee	✓	✓	✓	✓
Abdul Razak Al Qassim Director	✓	Left the Board in 1st Quarter		
Fawzi Ahmed Kanoo Director	✓	✓	✓	×
Mir Zulfekar Ali Director	✓	×	✓	×
Sh. Rashid Bin Salman Al Khalifa Director	✓	✓	✓	✓

Audit Committee Meetings: Total number of meetings held: 4

Members	Meeting dates			
	17/1/2017	18/4/2017	18/7/2017	17/10/2017
Abdulla Yousif Akbar Alireza Deputy Chairman & Chairman of Audit Committee	✓	✓	×	×
Khalid Yousif Abdul Rahman Director & Deputy Chairman of Audit Committee	✓	✓	✓	✓
Hussain Sultan Al Ghanem Director	✓	✓	✓	✓

Nomination & Remuneration Committee Meetings: Total number of meetings held: 7

Members	Meeting dates						
	30/1/2017	15/2/2017	18/4/2017	19/04/2017	31/5/2017	19/7/2017	22/11/2017
Farouk Yousuf Khalil Almoayyed Chairman of the Board and Chairman of the NRC	✓	✓	✓	✓	✓	✓	✓
Dr. Essam Abdulla Fakhro Deputy Chairman	✓	✓	✓	✓	✓	✓	✓
Abdulla Yousif Akbar Alireza Deputy Chairman	✓	✓	✓	✓	✓	✓	✓
Ali Hussain Yateem Director	✓	✓	×	✓	✓	✓	✓

Includes attendance through conference calls

Management Structure:

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines, the details of which are available on page 19 of this annual report.

Within the management structure there are separate committees such as Management Committee (MANCO), Credit, Asset/Liability Management, Operational Risk Management and Business Continuity Planning. These committees, comprising of members of the senior management, meet on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

The Compliance Officer reports directly to the CEO and has direct access to the Board of Directors through the Audit Committee. The Corporate Secretary has direct access to the Board of Directors as per the requirements of Corporate Governance.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Performance evaluation of Board and sub-committees

The Board of Directors has conducted a self-evaluation of the performance of the Board and its sub-committees for the year 2017. This was carried out through the completion of a structured questionnaire on the effectiveness and contribution of each member against certain pre-defined criteria as per the mandate of the Board and each Board sub-committee.

The Nomination and Remuneration Committee is responsible for overseeing the process and the findings were presented to the Board of Directors in January 2018 which confirms that NBB's Board and its sub-committees continue to operate with a high level of effectiveness.

Related party transactions and Conflict of Interest

Directors have a duty under CBB regulations as well as the Bank's corporate governance policy to avoid situations in which they may have conflicts of interest with those of the Bank, unless they are specifically authorized by the Board of Directors. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank.

The Bank has policies and procedures for handling related party transactions including loans and advances to directors, senior management and their related parties, as well as transactions and agreements in which a director or an employee has a material interest. In addition, exposures to directors and senior management are governed by the regulations of the CBB. Details of related party transactions are disclosed in Note 27 of the financial statements.

As per the Bank's policy, the Directors concerned do not participate in decisions in which they have or may have a potential conflict of interest. Having reviewed all such transactions during 2017, it was concluded that there were no transactions involving potential conflict of interest which need to be brought to the attention of the shareholders.

Employment of Relatives

The Bank has a Board approved policy in place on employment of relatives to prevent the potential favoritism and conflict of interest in decision-making due to factors of relationships amongst employees including Approved Persons.

Code of Conduct

The Board has adopted a comprehensive Code of Conduct that provides a framework for directors, officers and employees on the conduct and ethical decision making integral to their work. All officers and employees subscribe to this Code and are expected to observe high standards of integrity and fairness in their dealings with customers, regulators and other stakeholders.

Whistle Blower policy

The Board has adopted a Whistle Blower policy which provides all employees with the opportunity to report in good faith, any instances they observe regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank. The policy is available on the website of the Bank.

Communication Strategy

The Bank has a public disclosure policy approved by the Board of Directors. The Bank is committed to support the timely and accurate disclosure of material information in accordance with the requirements set out in the rules and regulations of the CBB and the Bahrain Bourse as well as other applicable laws, to facilitate efficient capital market activities.

The Bank believes in the principle of transparency about its financial performance thus enabling all stakeholders to have access to such information on a timely basis. In addition to the annual audit, the external auditors conduct reviews on the Bank's quarterly financial statements.

These statements are subsequently published in the newspapers and posted on the Bank's website in accordance with regulatory requirements. The annual report including the complete financial statements for the current financial year and a minimum of five preceding financial years are provided on the Bank's website.

Fines and Penalties

The following penalties were paid by the Bank to the CBB during the year: (a) BD 220 relating to old and new currency notes sorting (b) BD 50 on account of failure to clean up erroneously opened account in BCRB system in time.

Directors and Senior Management interests:

The number of shares held by directors and their related parties and trading during the year is as follows:

Name	Type of shares	31 Dec 2017*	Sales during 2017	Purchases During 2017	31 Dec 2016
Farouk Yousuf Khalil Almoayyed, Chairman	Ordinary	20,591,756	-	-	18,719,779
Dr. Essam Abdulla Fakhro, Deputy Chairman	Ordinary	8,970,620	-	-	8,155,111
Abdulla Yousif Akbar Alireza, Deputy Chairman	Ordinary	13,300,714	-	-	12,091,564
Ali Hussain Yateem, Director	Ordinary	11,368,860	-	-	10,335,330
Khalid Yousif Abdul Rahman, Director	Ordinary	19,517,741	-	501,280	17,287,693
Hussain Sultan Al Ghanem, Director	Ordinary	-	-	-	-
Fawzi Ahmed Kanoo, Director	Ordinary	79,783	-	-	72,531
Khalid Omar Al Rumaihi, Director	Ordinary	-	-	-	-
Mir Zulfekar Ali, Director	Ordinary	-	-	-	-
Sh. Rashid Salman Mohamed Al Khalifa, Director	Ordinary	-	-	-	-
Total		**73,829,474**		**501,280**	**66,662,008**
As a % of the total number of shares		**5.79%**			**5.75%**

* Shares as at 31 December 2017 includes bonus shares issued during the year (where applicable) at the rate of one additional share for every ten shares held.

The number of shares held by senior management and their related parties and trading during the year is as follows:

Name	Type of shares	31 Dec 2017*	Sales during 2017	Purchases During 2017**	31 Dec 2016
Jean-Christophe Durand, Chief Executive Officer	Ordinary	-	-	-	-
Hussain Al Hussaini, Chief Executive, Treasury, Capital Markets & Wealth Management	Ordinary	118,443	-	118,443	-
Abdulaziz Al Ahmed, Chief Executive, Retail, Commercial & SMEs	Ordinary	127,412	-	92,250	31,966
Bruce Wade, Chief Risk Officer	Ordinary	43,165	10,000	38,314	13,501
Dana Buheji, Chief Human Resources Officer	Ordinary	-	-	-	-
Iain Blacklaw, Chief Operating Officer	Ordinary	-	-	-	-
Yaser Alsharifi, Chief Strategy Officer	Ordinary	-	-	-	-
Richard Hicks, Chief Marketing Officer	Ordinary	-	-	-	-
Venkata Subramaniam Raju, Chief Financial Officer	Ordinary	76,109	-	41,275	31,668
Moschonas Panagiotis, Head of Internal Audit	Ordinary	2,403	-	2,185	-
Total		**367,532**	**10,000**	**292,467**	**77,135**

* Shares as at 31 December 2017 includes bonus shares issued during the year (where applicable) at the rate of one additional share for every ten shares held.

** Represents shares transferred during the year as part of the Employee Share Incentive Scheme.

Approved Persons interests:

The total interest in the shares held by approved persons and their related parties is as follows:

	Type of shares	31 December 2017	31 December 2016
Total number of shares held	Ordinary	**74,271,469**	67,682,187
As a % of the total number of shares		**5.82%**	5.84%

CORPORATE GOVERNANCE REPORT (CONTINUED)

Remuneration:

Board of Directors Remuneration Policy:

The Board of Directors is paid an annual remuneration as approved by the shareholders at the Annual General Meeting. While the amount of remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the directors to the Bank, are considered for determining the total remuneration. Directors remuneration is accounted as an expense as per International Accounting Standards and CBB regulations, the payment of which is subject to approval by the shareholders at the Annual General Meeting. In addition, the members are paid sitting fees for the various sub-committees of the Board of Directors.

Employees Remuneration Policy:

The employees of the Bank are critical for the Bank's success and future business sustenance. Hence, it is imperative to recruit and retain talented resources from the competitive employment market. In order to achieve this objective, the Bank's remuneration policy is developed to attract, retain and motivate the best talent. Accordingly, employee remuneration and benefits are reviewed and revised in the context of business performance, industry and local practices. In addition to fixed monthly salary and allowances, employees are provided with several other benefits like variable remuneration in the form of bonus, medical, life insurance cover, retirement benefits and employee savings scheme. While doing so, the Bank gives paramount importance to the interests of the shareholders and to this end, the Bank has implemented the Sound Remuneration Practices mandated by the Central Bank of Bahrain. While aligning the compensation of the employees with the risk outcomes and performance levels of the Bank, the revised policies for Variable Remuneration i.e. the Bonus and Share Incentive Scheme also endeavor to align senior management's interest with shareholders' interests. The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 8% to 9% of the net profit before the bonus and the variable remuneration of senior management is reviewed and approved by the Nomination & Remuneration Committee of the Bank. The approaches under the revised compensation policies will be beneficial to all stakeholders of the Bank, including the shareholders, as they resolve to achieve a balance between the performance and risk outcomes.

Remuneration of Board Members, Senior Management and Fees Paid to External Auditors:

The aggregate remuneration paid to board members and senior management personnel are disclosed in Note 27 of the Financial Statements.

KPMG Fakhro was the Bank's external auditors for the financial year ended 31 December 2017. The details of Audit fee paid to the auditors during the year 2017 as well as the details of non-audit services and fees paid are held at the Bank's premises, which is available to eligible shareholders upon specific request.

Status of compliance with CBB's Corporate Governance guidelines (High Level Controls Module)

Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook, which became effective from 1st January 2011 with full compliance mandated by the financial year end 2012. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance explained by way of an annual report to the shareholders and to the CBB.

The Bank is in compliance with the requirements of the HC Module except for the following Guidance:

Guidance

1. HC 1.3.13 states that no director of a bank should hold more than 3 directorships in public companies in Kingdom of Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does. Two of the Bank's Directors, Mr. Farouk AlMoayyed & Dr. Essam Fakhro hold more than 3 directorships in public companies in Bahrain. However, the Board is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as the directors provide adequate attention to their responsibilities and there are no conflict of interests between their other directorships and that of the Bank.
2. HC 1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Mr. Farouk Almoayyed is not treated as an independent director, taking into account the business transactions that the Bank has with the Almoayyed Group controlled by Mr. Farouk Almoayyed. The Board is of the view that this does not compromise the high standards of corporate governance that the Bank maintains as (i) the business transactions are entered into on 'arms length' basis following transparent tendering and approval processes (ii) the Bank follows strict policies to manage conflicts of interest in Board decisions (iii) Directors who are interested parties in business proposals considered by the Bank do not participate in decisions related to such proposals.
3. HC-1.8.2 states that the Board should establish a Corporate Governance Committee of at least three independent members and HC-1.8.5 allows combination of committees. The Bank has combined the responsibility of the Corporate Governance Committee with that of the Audit Committee, which has three members two of whom are independent. The Board is of the view that this does not compromise the high standards of corporate governance as the Audit committee has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfill its responsibilities.

The Board recognises that good governance is integral to the success of any organisation and is fully committed to protecting the interest of all stakeholders through robust and international standard governance policies.

FINANCIAL REVIEW

Overview

The Bank achieved strong financial results and record net profit for 2017 with Bahrain's economy demonstrating resilience, the bank continues to grow and deliver returns for shareholders.

2017 was a challenging year given the tough external economic environment especially on the back of austerity measures by most of the regional governments to better manage their fiscal position. During the year, the Bank focused on diversification of the asset portfolio, enhancing the overall income by better asset liability management and prudent risk management. This resulted in the Bank recording a net Profit of BD 61.01 million for 2017, an increase of 4.8 percent over the previous year actual of BD 58.24 million.

At year-end 2017, the total Balance Sheet of the Bank stood at BD 3,101.54 million compared to BD 2,977.10 million as at the previous year-end. The Bank has a well-diversified asset profile with Loans and Advances representing 39.6 percent of the total assets, while Treasury Bills represents 13.5 percent, Placements with Banks & Financial Institutions represent 5.6 percent; Investment securities represent 34.4 percent and Others 6.9 percent of the total assets. Customer Deposits stood at BD 2,165.21 million which represents 69.8 percent of total liabilities and equity while shareholders funds represents 14.4 percent of total liabilities and equity and Others (mainly bank borrowings and other liabilities) the balance 15.8 percent.

Key performance indicators continue to remain healthy with Return on Average Equity at 14.14 percent (2016: 14.94 percent) and a Return on average Assets of 2.01 percent (2016: 1.95 percent) for the year 2017. Earnings Per Share improved from 46.3 fils in 2016 to 48.4 fils for 2017. Efficiency Ratio improved from 35.19 percent for the previous year to 31.58 percent for 2017. The Bank continues to have a strong capital adequacy ratio of 36.28 percent before the proposed appropriations calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks, Treasury bills and Placement with financial institutions) representing 22.6 percent of total assets.

Net Interest Income

Net Interest Income for 2017 was BD 73.07 million compared to BD 65.99 million for 2016, reflecting a strong increase of 10.7 percent. The increase is attributable to growth in the average loans and advances portfolio and effective asset liability management. Accordingly, the net interest income as a percentage of total assets, improved to 2.36 percent in 2017 compared to 2.21 percent in 2016.

Other Income

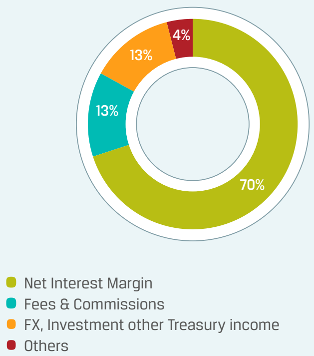
Total Other Income recorded for the year was BD 31.40 million compared to BD 30.88 million recorded for the previous year. This modest increase is mainly due to a one-off income from gain on sale of investments in the previous year. However, in line with our business diversification strategy, our fee based core banking activities showed a growth of 14.1% and income from treasury and investments activities increased by 4.9%.

Details of Other Income, with comparative figures for the previous year, are set out in Note 24 to the Financial Statements.

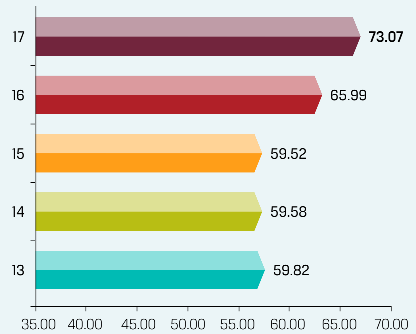
Operating Expenses

Operating Expenses at BD 32.99 million showed a decrease of 3.2 percent over the previous year actual of BD 34.09 million, reflecting a remarkable improvement in Cost to Income Ratio from 35.19 percent in the previous year to 31.58 percent. The decrease in operating expenses was a result of a wise expenditure management strategy which focuses on cost rationalisation while strengthening the human capital through acquiring talented employees to support the

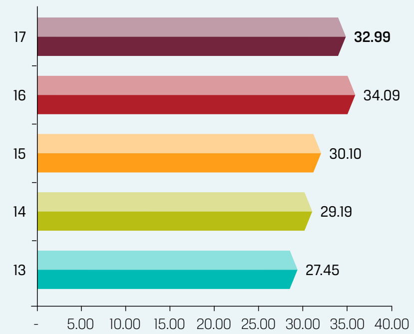
Composition of Total Income
(Percent)



Net Interest Income
(Amounts in BD Millions))



Operating Expenses
(Amounts in BD Millions))



bank's long term objectives and investing in digital transformation to achieve better internal efficiencies and greater customer experience.

Provisions

The Bank follows International Accounting Standard 39 and Central Bank of Bahrain regulations for assessing the adequacy of provisions for loan losses. Provisions for individually impaired credit exposures are determined by discounting expected future cash flows. Impairment and un-collectability is also measured on a portfolio basis, for a homogenous group of loans and advances not individually identified as impaired, on the basis of estimates of incurred losses inherent within the loans and advances portfolio that have not been specifically identified at the balance sheet date. The estimates are based on internal risk ratings, historical default rates adjusted considering current observable data, rating migrations, loss severity, macroeconomic outlook and other relevant factors that reflect the effect of current conditions on the loan book. Based on the ongoing assessment of the provision requirement, an amount of BD 10.40 million was provided towards impairment on loans and advances during the year. Further, a charge of BD 0.07 million was made for impairment on equity investments due to decrease in the market value of the investments.

Non-performing loans continue to be closely managed which stands at BD 87.76 million at the end of 2017 compared to BD 83.58 million at the end of 2016.

Details of the Bank's non-performing loans, provisions and movements therein during the year are detailed in Note 7 to the Financial Statements

Assets

Total Assets stood at BD 3,101.54 million as at 31 December 2017, compared to BD 2,977.10 million as at 31 December 2016. Total Earning Assets stood at BD 2,939.66 million as at 31 December 2017 compared to BD 2,822.98 million as at the previous year-end. The Bank has a well diversified asset profile with Loans and Advances representing 39.6 percent of the total assets, while Treasury Bills represents 13.5 percent, Placements with Banks & Financial Institutions represent 5.6 percent; Investment securities represent 34.4 percent and Others 6.9 percent of the total assets.

The loan portfolio is diversified with widespread participation in domestic market and broadening of business relationships in Bahrain in line with the Bank's strategy of focusing on the active sectors of the domestic economy.

Loans and Advances portfolio is well diversified with 91.0 percent of the total concentrated in Bahrain and other GCC countries. Based on contractual maturity terms, 43.8 percent of the current portfolio matures within one year and 67.1 percent is due to mature within 3 years of the balance sheet date.

At the year-end, the Bank's Investment portfolio of BD 1,067.30 million (2016: BD 1,092.92 million) consisted mainly of debt and equity securities while a small portion represents investments in mutual funds designated at Fair Value Through Profit or Loss. A major part of the available for sale debt securities represents Government of Bahrain bonds and Islamic Sukuks.

Notes 29 and 30 to the Financial Statements provide details of the distribution of Total Assets by geographical region and industry.

Liabilities

Customer Deposits at year-end 2017 stood at BD 2,165.21 million compared to BD 2,088.35 million at previous year-end. The Bank continues to be successful in generating core customer deposits resulting from its dominant position in the domestic market and leveraging its image as a safe and sound financial institution in the Kingdom of Bahrain.

Borrowings under repurchase agreements and due to banks and financial institutions stood at BD 451.84 million at year-end 2017, compared to BD 438.09 million as at year-end 2016. Customers Deposits continue to be the major source of funding with the ratio of Customers' Deposits to Total Liabilities at 81.6 percent at year-end 2017.

Capital Strength

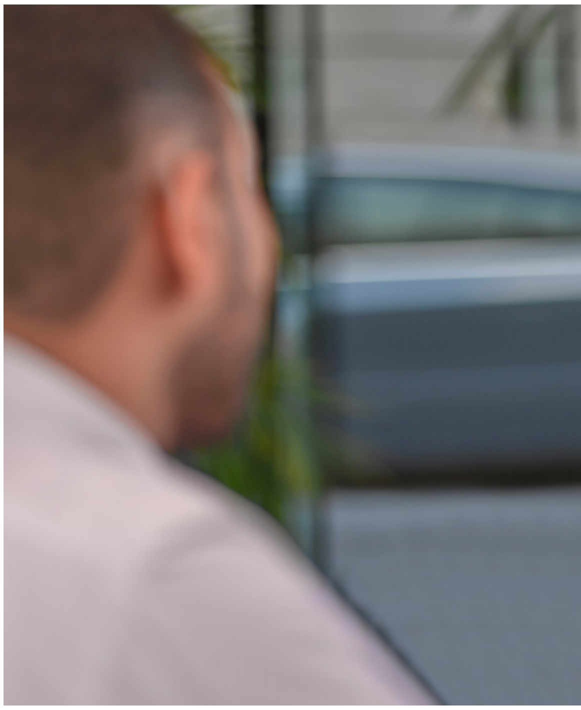
Shareholders' Equity, inclusive of proposed appropriations, reflected a balance of BD 447.94 million as at year-end 2017, compared to BD 414.70 million as at the previous. At the year-end, Shareholders' Equity as a percentage of Total Assets was 14.4 percent.

The Bank's capital adequacy ratio as at 31 December 2017 was 36.28 percent with Common Equity Tier 1 (CET 1) ratio at 35.27 percent before the proposed appropriations. The ratios have been calculated in accordance with the Basel 3 and Central Bank of Bahrain guidelines.

The Bank's capital adequacy ratio, encompassing credit, operational and market risk, is well above the Basel requirement and comfortably above the minimum level of 12.5 percent set by the Central Bank of Bahrain. The main factors that contribute to the Bank's strong capital adequacy ratio are high capital base, low risk profile of on-balance sheet and off-balance sheet exposures which includes significant exposures to low risk weighted assets namely governments, public sector undertakings, banks and financial institutions. Note 41 to the Financial Statements and Risk and capital management disclosures provide further details on capital adequacy.

BUSINESS REVIEW

We have established a dedicated Corporate, Institutional & Investment Banking division during the year offering structured finance, debt capital markets advisory and a professional coverage targeting large players in the Kingdom and the countries where we are present.



Retail Banking

During 2017, the Division continued to consolidate its core segments and managed to grow its asset book despite severe competition and price pressure. Overall customer deposits were also enhanced compared to the previous year. The Division focused on enhancing electronic and direct channels to improve customer access and convenience, working closely with the Bank's Marketing Department to support the launch of revamped Internet/mobile banking channels and a redesigned, customer friendly website. The division also actively worked to enhance Sales & Distribution channels through the opening of a spacious, conveniently located new branch at Tubli. Card acceptance services were expanded through both POS and electronic payment gateways.

On core loans and advances, the low interest environment continued during the year despite an increase in US Federal Reserve rates, which put pressure on interest margins. Working within difficult operating conditions, campaigns for rewarding customers were launched for retail customers. We built on our strengths of door-step service through sales channels, and held on-site sales promotions at employers' premises. In line with our objective of supporting retail customers, very competitive loan rates were offered and well received by customers. Promotional campaigns undertaken were successful in attracting new customers to the Bank and enhancing the retail loan book significantly. Campaigns were supported through activities like data mining to cross sell to the existing customer base and intensive SMS campaigns to directly reach customers.

In line with the Bank's objective of encouraging savings habits among customers, its flagship savings scheme "Al Watani" was revamped and relaunched with an attractive prize package offering a Riffa Views villa, flats in Amwaj, gold bars and other cash prizes. In order to enable the widest participation and encourage all customers to save, enrolment in the campaign continued to be extremely customer friendly wherein all savings and Savewave accounts with the minimum balance were automatically included in the draws.

The pre-paid "Taabeya" card also continued its successful run with the portfolio increasing significantly. Marketing campaigns were introduced to stimulate card usage during Ramadan and Eid. The Bank partnered with various merchants to bring special offers and add value to its cardholders. These include promotions with Mastercard, Gulf Air, Sharaf DG and other retail outlets.

Attempts were made to improve the utilization of the Bank's ATM network by incentivising customers for using NBB ATMs, with the objective of changing customer behaviour and

reducing cost and in-branch visits. The daily cash withdrawal limit was also enhanced to improve customer convenience. The division closely supported Marketing and IT to revamp ATM screens, giving them a more modern, contemporary look.

In an effort to bring banking services nearer to customers, the direct sales distribution channel was strengthened and used as an effective sales tool. By offering customers service at their door-step, the direct sales team was able to canvass business from a growing number of customers.

Commercial Banking & SMEs

2017 was a very successful year for the Commercial Banking and SMEs unit. The asset book grew by over 15% and the bottom line was significantly enhanced. This growth was achieved by close market monitoring and executing several fruitful strategies to improve the Bank's presence in the market.

Commercial Banking & SMEs was successful in selecting transactions that align with NBB lending criteria and adopted a segmented approach whereby preferred sectors within the market were targeted to diversify the Bank's loan portfolio and minimize the risk. The unit was successful in targeting sectors that are key to the overall growth of the Bahraini economy such as Trading, Manufacturing and Fintech, among others. This strategy has enhanced the units strong financial position and helped to maintain its market leadership position.

The Commercial Banking team also focused on enhancing its relationship with existing customers by implementing retention strategies such as customising its services to suit client requirements and structuring facilities in line with their business models. Keeping in mind that 'customer satisfaction" is the key to success, several retention strategies were implemented, which led to maximizing business opportunities from our highly valued relationships.

In addition, during the year several initiatives were taken to enhance the alignment of the Bank's business model and strategy with the country's economic goals and objectives. One of the key initiatives was establishing an International Subsidiary Coverage unit serving international companies that are interested in operating in Bahrain. This unit facilitates the provision of bank account and other services, helping them to complete their required documentation and supporting their export and import requirements.

Corporate, Institutional & Investment Banking

In 2017 NBB's Corporate, Institutional & Investment Banking Division (CIIB) was established as part of the Bank's strategy to expand its role and support for the growth of the local economy.

BUSINESS REVIEW (CONTINUED)

CIIB is the platform from which NBB will now serve its Corporate and Institutional clients with dedicated coverage teams and an enhanced product offering. In addition to Corporate and Financing Institution Coverage, CIIB also includes product teams offering expertise in Debt Capital Market (DCM), Syndication, Structured Finance, Trade Finance and Cash Management.

An early win for the CIIB division is the high profile role NBB was awarded in Bahrain's latest sovereign issuance. NBB successfully acted as a Joint Lead Manager and a Joint Bookrunner on Bahrain's US$3.0 billion dual-structure triple-tranche Rule 144A / RegS international debt capital market offerings, comprising of US$ 850 million 7.5-year sukuk, a US$1.25 billion 12-year bonds, and US$900 million 30-year bonds. The transaction marks various milestones for Bahrain, achieving its largest fundraising ever at a single issuance window and receiving its largest ever orderbook.

On the Financial Institution side, NBB participated in several syndications in Bahrain and the GCC.

We are confident that the addition of CIIB will further raise NBB's profile as a key player in Bahrain and the GCC and better enable the Bank to support economic growth and development both locally and in other markets where we are active.

Treasury, Capital Markets & Wealth Management

Global growth reached 3.6% in 2017, its strongest rate since 2011 – a significant recovery from a post-crisis low of 2.4% in 2016. A continued recovery in emerging markets and developing economies proved supportive to the global environment with activity recovering further in commodity exporters while remaining robust in commodity importers. Growth rates in the US during the year were supported by the expectations of the Tax Cuts and Jobs Act that were recently ratified.

US inflation this year is anticipated to approach or breach the Federal Reserve's 2% target, an important monetary policy indicator for the central bank that has raised interest rates five times since December 2015. With high growth and low unemployment – currently, the lowest unemployment rate in 17 years – the assumption is accelerating inflation will necessitate the Federal Reserve into raising interest rates, perhaps even more quickly than they had previously thought.

Treasury & Asset Liability Management

The Bahraini Dinar interbank money market continued to be liquid during the year as international investors and banks maintained their interest in investing their funds into the local market in order to take advantage of the higher yields on Bahraini Dinar assets. The Central Bank of Bahrain raised its key benchmark rates throughout the year mirroring

the changes in interest rates by the US Federal Reserve. In June 2017, the Government of Bahrain started issuing the one year treasury bills on a monthly basis instead of quarterly. The increase in the number of issues has resulted in the total funds raised from the government short term securities growing by 300 million Bahraini Dinars. The department was able to utilize this rise in issuances in hand with the market Bahraini Dinar liquidity and the Bank's strong deposit base to optimise the returns on its short term investment activities.

US dollar liquidity tightened in the GCC money market following the structural reforms undertaken by the governments across the region and geopolitical tensions which caused banks to manage their liquidity more cautiously. Both these factors lead to a rise in the interbank lending rates. NBB nonetheless remained active in the US dollar money market, taking advantage of the volatility in rates to capitalize on any gapping opportunities.

The year 2017 was an active year for Bahraini Dinar in both Spot and Forward markets due to geopolitical and fundamental issues. Credit ratings and speculation were the main cause for the negative price movements. The Bahraini Dinar price was steady for the most part of 2017 before seeing some international names start speculating against it, pushing one year Swap costs higher compared to the first quarter of 2017.

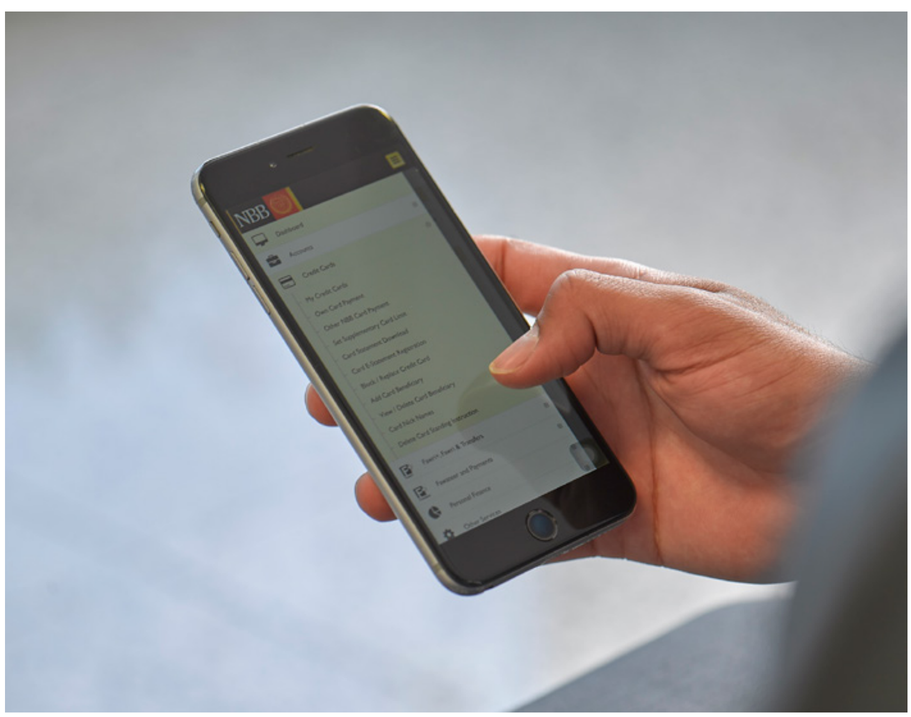
Throughout the year, the Saudi Arabian Riyal and Arab Emirates Dirham have held steady at their peg levels for spot trading. Forward market prices for Saudi Arabian Riyal and Arab Emirates Dirham have recovered to trade near par to the US dollar. Geopolitical developments and poor liquidity, however, have created instability in the spot foreign exchange market for the Qatari Riyal. Financial markets quoted wide prices with the currency trading more than 7% below its peg to the US dollar before stabilizing at 1% below towards the year-end.

Portfolio Management

Moreover, the Bank's deposit have grew at a comparatively low cost to the Bank. Although the Federal Reserve increased interest rates three times, the performance of the portfolio was minimally impacted as our hedging strategy provided a cushion in the higher rate environment. The unit was again able to produce above average returns.

Capital Markets Sales

Despite intense competition and subdued business activities due to economic conditions, the unit managed to successfully meet its 2017 targeted budget by continuing to provide outstanding services and competitive prices for its clients in the foreign exchange markets as well as offering them advice and guidance on investment and hedging



BUSINESS REVIEW (CONTINUED)

ideas against interest and exchange rate fluctuations by incorporating various market tools and solutions.

Selective GCC investment were added throughout the year in an attempt to diversify the portfolio.

Wealth Management & Investment

The unit continued to provide asset management services with its main focus on fixed income and custody services during 2017 in addition to its activities managing the Bank's investments in local equities and investment funds.

During the year, the unit maintained a strong client base including institutions, corporates, financials and insurance companies, and high net worth individuals, from Bahrain and other GCC countries. The unit was also able to attract new assets through Custody Services from both existing and new investors. Despite fierce competition and challenges. Despite this, the Unit was able to grow the assets under management during the year 2017.

Collaboration with the Bank's Portfolio Unit to identify the right investment mix of securities allowed us to provide investment solutions that meet our clients' financial goals. From the proprietary book perspective, we continued to take a very cautious approach in the proprietary investment side of the business, hence our positions remained largely unchanged for the year. Going forward, and to boost the unit's contribution to the bottom line, we are in the process of extending our activities to add more new products and services to cater to a wider customer base and to provide complete investment solutions to our existing and potential clients.

Overseas Branches

With its presence in Bahrain, the UAE and KSA, NBB is uniquely positioned to serve business customers who are becoming increasingly active across the region.

Looking at our activities regionally, we took steps to further activate our presence in Abu Dhabi and Riyadh, where we have existing operations and have devised a new business plan for growth.

During the year, we reinforced the teams in each of these markets and started implementing our new vision.

Abu Dhabi, United Arab Emirates

The UAE operation was able to deliver improved performance, seeing the bottom line register an increase of over 300% compared to the previous year. NBB has achieved these results despite the low growth GDP environment across the region over the last two years which has impacted overall demand for corporate and consumer loans.

All aspects of the Bank's operations both relating to income and expenses were reviewed during the year and have been re-negotiated on more favorable terms and conditions. This was necessary and long overdue, given that we are operating in a competitive market (50 plus banks) and challenging economic environment.

Other notable milestones for NBB in UAE during 2017 included: doubling its local capital, compling with CB-UAE Emiratization Points requirement for the year, booking bi-lateral business banking relationships with new to bank names.

The UAE operations can leverage the expertise at the Head Office in debt capital markets, structured finance and financial Institutions to provide tailored solutions to customers in their market.

Given the performance in 2017, NBB in UAE is well positioned in 2018 to further strengthen its presence and financial performance.

Riyadh, Kingdom of Saudi Arabia

NBB's Riyadh Branch looked to strengthen its presence and foundations so that it can deliver a greater contribution towards the Bank's overall performance. With the rapid changes experienced in Saudi Arabia following the announcement of the Vision 2030 and the National Transformation Plan, NBB has taken decisive steps to elevate the level of the team servicing the Saudi market.

This started with the appointment of Chief Executive - Saudi Arabia. With this addition, NBB now has a seasoned banker heading these operations and spearheading the advancement of the efforts to more effectively meet the needs of its clients and better capitalise on the opportunities that will arise from the Kingdom's economic development plan. The Chief Executive - Saudi Arabia will continue to focus on further enhancing the team and develop the business in coordination with the Head Office.

The focus will be on the corporate and commercial sectors expanding the offering to SMEs and the retail segments through the Bank's digital channels in future years. The Saudi operations will continue to have autonomy as required by SAMA regulations and will leverage the capabilities of the Head Office as permissible under the regulations building on solid foundations of KYC, AML and Compliance.

OPERATIONAL REVIEW

Significant enhancements were undertaken throughout 2017 in order to ensure a robust infrastructure and in line with modern industry standards.

Information Technology

Information Technology successfully implemented numerous projects during 2017 in line with the Bank's strategy of adopting innovative digital solutions. NBB launched a new website and Retail Internet Banking channel, with a new look and rich user interface. This channel introduced enhanced features allowing customers to process transactions online and real-time. Other new features include credit card management and personal finance to manage budgets and expenses. The Unit also launched a new mobile banking channel, which allows customers to access NBB's banking channel and services anytime and anywhere on a wide range of smart mobile devices.

Throughout the year, NBB continued to upgrade and revamp the IT Infrastructure and key systems across the Bank in order to meet the Central Bank of Bahrain's requirements and PCI/DSS compliance mandated by VISA/MASTERCARD. Information Security also remained a focus area in IT and in compliance and further measures were taken to adopt and implement industry best practices. These included a number of projects to strengthen the security of its systems and ensure customers' information is highly secure and protected against cybercrime.

There have also been various other projects and initiatives taken up by IT during the year to fulfill business needs, streamline IT infrastructure and implement new digital services to enable NBB to offer better and faster services and an enhanced customer experience.

Operations

NBB embarked on an ambitious strategic initiative in 2017 to take the Bank fully digital in the coming years. Operations, in line with the strategy, the Bank has taken important steps in aligning its operations and streamlining its processes to achieve maximum impact towards a positive customer experience. Operations has moved all manual standing orders to be automated through the Electronic Funds Transfer System, streamlined the processing of corporate salaries and Government subsidies, and enhanced internal control mechanisms within Operations to ensure proper governance.

Call Centre

Customer satisfaction remains a central objective for NBB in its efforts to continue to build market share and effectively maintain and attract customers. In line with this strategy, the Call Centre has been striving to provide 24/7 customer service and has successfully managed to field 20,000 calls per month during 2017 to ensure the best quality of service to our clients.

In addition to providing all the Bank's customers with ongoing account related banking services, the Call Centre has also worked to support and enhance clients' awareness of all features and functionalities provided by NBB E-channels.

Throughout the year, the Call Center has played a key role in identifying the root causes of customer's complaints and work hand-in-hand with other departments to ensure the best quality standards. To meet such challenges, extensive training and coaching sessions were provided to the team.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility

Since NBB's establishment in January 1957, the Bank has strived to remain at the heart of the community and has taken the community to heart. Several decades on, our commitment to supporting the Kingdom's social welfare and contributing to the betterment of the lives of its citizens continues undiminished. It is both our duty and our privilege to be serving the community beyond the banking and financial services we provide.

In line with the Bank's corporate social responsibility policies, each year NBB allocates 5% of the Bank's net annual profit in support of our social endeavors. These include programmes and foundations/projects which are aimed at promoting social welfare, health care and education. This principle dates back to 1980 when the Bank's Donations and Contributions Programme was formalized. The Bank has spent BD 42.77 million since the inception of the Donations and Contributions Programme.

In 2017, we contributed BD 1.57 million through our donations and contributions programme primarily in the field of health care, education, research studies and other social welfare projects.

Our Commitments:

I. Education

Our commitment to education comprises of donations that provide support to all educational initiatives which have a direct impact on the community. These include scholarship programmes for students plus donations and contributions to schools, colleges, universities and other educational establishments.

II. Health care

Our commitment to the health sector comprises of donations which actively contribute to the betterment of our society in terms of health and well-being. These include direct donations and contributions to hospitals, medical centres, registered organisations and health service providers as well as for the provision of equipment.

III. Social welfare

Our commitment to social welfare comprises of donations to associations and social and philanthropic organisations to finance their periodic and recurring activities. These include support for activities that aim at achieving substantial social benefits for specific sectors, segments as well as the public at large. Our support extends to special programmes which specifically target lower income groups and challenged sections of our society. All with the aim of helping to develop a better and more cohesive community.

IV. Development programmes

Our commitment to development programmes comprises of all initiatives and activities that place a focus on Bahrain and the development of the financial sector in the Kingdom. These include support for professional associations and specialised conferences and events focused on specific areas of strategic importance to the Kingdom.

V. Others

This category includes all other donations and contributions which are considered justified by the Donations Committee


دار بنك البحرين
الوطني للمسنين
NATIONAL BANK
OF BAHRAIN
ELDERLY HOME
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NBB


NBB

RISK MANAGEMENT

Risk Management

The financial sector continues to grow in complexity and sophistication with ongoing changes in the regulatory and operating environments globally. Moreover, advances and developments on the technological front are introducing new challenges and opportunities for banks. With this dynamic environment comes a growing need to continue to strengthen existing frameworks and bolster controls. NBB has over the years developed risk management into a core competence and remains well positioned to meet these challenges. The Bank evaluates risk in terms of the impact on income and asset values. The evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at NBB has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Risk arises from the Bank's lending and investment activities as carried out by the various units. The newly introduced Corporate, Institutional and Investment Banking platform (CIIB) is responsible for lending to large corporate entities in Bahrain and expanding on existing relationships through the Corporate Coverage team. In addition to the Financial Institutions unit, the CIIB platform offers its services through its newly established business lines covering Debt Capital Markets and Loan Syndications as well as Structured and Trade Finance. Commercial Banking's responsibilities cover the borrowing requirements of small to medium-sized companies based in Bahrain. Personal Banking handles lending to individuals in Bahrain and other retail services. Treasury is responsible for all the treasury and capital market related activities of the Bank whilst the Abu Dhabi and Riyadh Branches serve the UAE and Saudi Arabian markets respectively.

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate Credit, Operational, Market and Information and Cyber Security risk policies as well as suitable operational guidelines based on the recommendation of Management. Approval authorities are delegated in the hierarchy depending on the amount, type of risk and collateral security. Moreover, the Bank has established an Operational Risk Management Committee (ORMC), Asset Liability Committee (ALCO) and Information Security Committee (ISC) to address different areas of risk.

Integral to the Bank's risk management system is the internal audit department that plays a role in evaluating the independence and overall effectiveness of the Bank's risk management functions. A periodic review of risk assets is conducted by the department to confirm that established policies, procedures and approved terms are complied with, to review asset quality and highlight areas of concern so that corrective action can be taken in time.

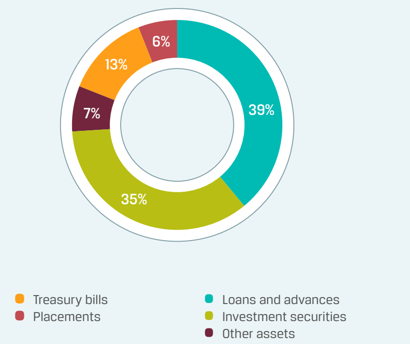
The Risk Group (RG) of the Bank provides the necessary support to the business units in all areas of risk management. This division functions independently of the business units to analyse risks and put forth its recommendations prior to approval by the delegated authorities. The Bank promotes healthy debate among the business units and RG to achieve an optimum balance between risk and return.

The Bank's risk management process encompasses the various dimensions of risk as follows:

Credit Risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of the credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

Composition of Total Assets
(Percent)

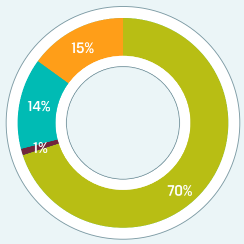


The Bank has well laid out procedures to appraise and monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral and counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral.

In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The Bank's internal ratings are based on a 16-point scale that takes into account the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to exit accounts that evidence deterioration in risk profile.

The Bank follows stringent criteria in setting credit limits for countries and financial institutions. Prudent norms have also been implemented to govern the Bank's investment activities. Not

Composition of Total Liabilities and Equity
(Percent)



only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.

The Bank enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest and exchange rates. The credit risk arising from a derivative contract is calculated by taking the cost of replacing the contract, where its mark to market value is positive, together with an estimate for the potential future change in the value of the contract. The credit risk on contracts with a negative mark to market value is restricted to the potential future change in their market value. Details of derivative contracts are contained in Note 17 to the Financial Statements.

The Bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 89 days. The Bank applies rigorous standards for provisioning and monitoring of non- performing loans. Level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc. Adequate provisions are carried to guard against inherent risks in the portfolio.

Legal Risk

The Legal Department manages and mitigates the legal risks of the Bank through prompt review and advice on transaction documents and regular review of standard documentation to ensure the Bank's interests are protected. Furthermore, they negotiate with counterparties/lawyers, keep abreast of latest developments in domestic and international banking laws, as well as corporate and other laws and regulations, and initiate corrective action when the Bank's business is likely to be affected.

In-house expertise independently ensures the above objectives are properly maintained.

In addition, firms of international repute have been retained by the Bank to advise on local and foreign law related matters and represent the Bank in legal proceedings before local and foreign legal authorities as and when such representation is required.

Liquidity Risk

Liquidity Risk is classified as the potential inability of the Bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liabilities management of the Bank ensures various liquidity criteria that need to be complied with, such as minimum level of liquid assets, gap limits, ratio of liquid assets to total assets, etc.

The Bank maintains adequate investments in liquid assets such as inter-bank placements and treasury bills. In addition, the Bank also relies on trading assets and other marketable securities to provide secondary sources of liquidity. The ratio of liquid assets to total assets as at 31 December 2017 was 51.39 percent. The high level of liquidity enables the Bank to meet fluctuating customer borrowings and drawdowns comfortably.

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The strategy of the Bank has ensured a balanced mix of demand and time deposits.

The Treasurer closely monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The asset and liability maturity profile by individual asset and liability category based on contractual repayment arrangements is detailed in Note 35 to the Financial Statements. As at 31 December 2017, 26.15 percent of assets were scheduled to mature within three months. Substantial investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. Proper contingency plans exist and can be implemented on a timely basis to minimise the risk associated with dramatic changes in market conditions. The ALCO chaired by the Chief Executive Officer, reviews the liquidity gap profile, liquidity scenarios and projections, and addresses strategic issues concerning liquidity.

Interest Rate Risk

Interest Rate Risk is measured by the extent to which changes in market interest rates impact margins, net interest income and the economic value of the Bank's equity. The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the

RISK MANAGEMENT (CONTINUED)

re-pricing structure of interest bearing assets differs from that of liabilities.

The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while selectively positioning itself to benefit from near-term changes in interest rate levels.

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions. A negative gap denotes liability sensitivity and a positive gap denotes asset sensitivity. Note 32 to the Financial Statements gives details of the Bank's exposure to interest rate risk.

Modified Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Modified Duration of the Bank's fixed income portfolio was 1.36 percent on 31 December 2017. This implies that a 1% parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BD 3.76 Million. Interest rate swaps and forward rate agreements are used to manage the interest rate risk.

The Treasurer is primarily responsible for managing interest rate risk. Reports on overall positions and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income over time.

Market Risk

Market Risk is classified as the risk to the value of the trading portfolio arising from changes in interest rates, foreign exchange, commodity and equity prices. The Bank's trading activities are governed by conservative policies, stringent adherence to controls and limits, strict segregation of front and back office duties, regular reporting of positions, regular independent review of all controls and limits and rigorous testing of pricing, trading and risk management systems.

The limits are set annually and regularly reviewed. Quality and rating are the main criteria in selecting a trading asset.

The Bank uses the Standardized Method to calculate Capital Charge for Market Risk, the capital that is required to be held on account of the various risk factors affecting the trading book and currency positions. Capital requirement on account of interest rate risk, foreign exchange risk, equity risk, commodity risk and options risk are calculated separately and then summed up to arrive at the total market risk capital requirement of the Bank. The following table shows the capital charges as at 31 December 2017:

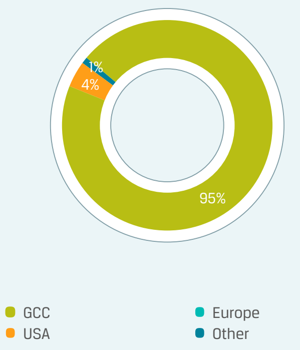
Particulars	Capital Charge in BD
Interest Rate Risk	1,258,759
Equities Risk	0
Foreign Exchange Risk	31,249
Commodities Risk	0
Options Risk	0
Total minimum capital required for market risk	1,290,008
Multiplier	12.5
Market Risk weighted exposure under the Standardized Method	**16,125,100**

Under the Standardized Method presented above and during the period January to December 2017, the maximum capital requirement was BD 3.29 Million on 29 April 2017 while the minimum capital requirement was BD 1.19 Million on 2 January 2017.

Operational Risk

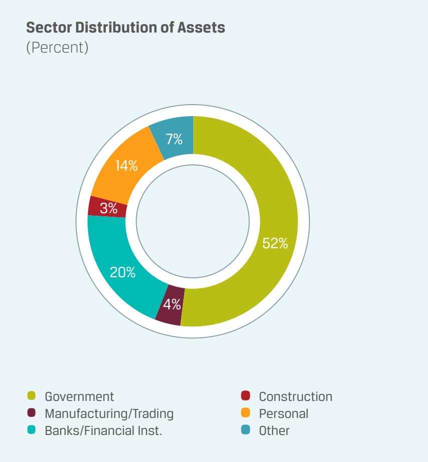
Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address potential risks.

Geographical Distribution of Assets
(Percent)



The Operational Risk management department within the Risk Group independently monitors and manages all aspects of operational risk on a bank wide basis. The Bank has established an ORMC to supervise, monitor and review operational risk issues and ensure that adequate mitigants are developed and implemented for all operational risk issues. The Risk and Control Self-Assessment (RCSA) programme provides the ORMC with a compact, comparative view of operational risks along with their measure in terms of likelihood of occurrence and probable impact across various units of the Bank. It also provides a basis to evaluate and prioritise the requirement of control enhancements and new mitigation approaches in a structured manner.

In addition to the RCSA programme, the Bank also uses Key Risk Indicators (KRIs) as a tool to monitor operational risk. KRIs are statistics and/or metrics which provide insight into the Bank's operational risk position. KRIs have been designed with thresholds that indicate increasing level of risk, thereby providing an indication of severity and the requirement to take corrective action. KRI results are tracked regularly



by the Operational Risk management department and reviewed by the ORMC. Further, Operational Risk Department assess risks in all new products, services, product processes and agreements before the same are implemented.

The primary role of the Internal Audit Department (IAD) is to assist the Board of Directors and the Audit Committee by providing reasonable assurance, in the form of independent opinion, as to the adequacy, efficiency and effectiveness of the internal control framework of the Bank. The Charter of IAD defines its purpose, authority and responsibility while a direct reporting line to the Audit Committee strengthens the function of Internal Audit and safeguards its independence. Internal Audit is independent of the Bank units with operational responsibilities and for administrative purposes reports to the CEO. The Department follows a risk-based methodology which examines the existence and adequacy of controls that address specific control objectives.

The Internal Audit Department complies with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) and has been certified for the performance of audits in accordance with the IIA Standards.

The Bank's business Continuity Plan as well as its off-site computer back-up centre provides system support to the Bank's critical operations in case of an emergency in the information technology systems. The Business Continuity Plan and the computer back-up centre are regularly tested to ensure readiness for seamless switchover in case of any emergency.

Necessary procedures and systems have been put in place to protect the Bank from money laundering activities.

In the circumstances where internal controls do not adequately address risk and existing risk is not reasonably mitigated, complementary controls to transfer risk to another party such as through insurance is evaluated on an annual basis.

Information & Cyber Security Risk

Banks are constantly being challenged by increasing Information and Cyber Security Threats. The cyber attacks are becoming more frequent, more sophisticated, more widespread and targeted. The Bank has taken significant steps to bolster cyber security efforts. NBB is utilizing the following cyber security controls: Enterpirse Anti-Virus Systems, spyware and malware detection, Next Generation Firewalls, Web Application Firewalls (WAF's), Database Firewalls, Intrusion Detection Systems (IDS)/ Intrusion Prevention Systems (IPS), Advanced Threat Protection (ATP), End Point Security, Threat Intelligence, server-based access control lists, vulnerability scanning tools, encryption for data in transit, encrypted files, etc. Furthermore, Cyber Security incident response and event management, network security, vendor management, and disaster recovery procedures are considered in evaluating the bank's overall safety and soundness.

In light of the challenges posed by cyber threats and to combat the evolving cyber threat landscape, the Bank Management has added an Information Security function within the Risk Group that serves as an oversight on the Information and Cyber Security activities of the Bank. The Enterprise Information Security Framework includes key aspects (1) a written Information and Cyber Security Policy, (2) security awareness education and employee training, (3) risk management of cyber-risk, inclusive of identification of key risks and trends, (4) information security audits, and (5) incident monitoring and reporting.

Reputation and Fiduciary risk

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion that would impact the ability to establish new relationships or services or to continue servicing existing relationships. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary/ non-fiduciary clients. Through its policies and practices, NBB ensures that proper screening of clients' risk profiles and performance expectations are conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated and funds placed under management are treated with due care and professionalism.

All the aspects of risk mentioned above are reviewed regularly at meetings of the Board of Directors and the Executive Committee based on a comprehensive risk report. This integrated approach to risk management also serves the Bank in achieving its objective of protecting the interests of shareholders and customers.

REMUNERATION REPORT

Our Philosophy

NBB has adopted a total rewards philosophy which translates its vision, strategy and the values into a framework that guides its decision making when it comes to all elements of its reward. We aim through this adoption to:

1. Attract and retain the best performers.
2. Provide incentive variable pay based on the attainment of specific organizational performance goals as well as the attainment of individual performance goals in a manner which is completely aligned to our organizational values.
3. Develop industry leaders who positively impact the performance of the bank and act as catalyst for growth within the economies in which we operate.

In its elements, our philosophy encompasses the following:

1. Encourage competency building by better linking career development, performance management and rewards.
2. Support a performance-driven work culture that generates organizational growth.
3. Reward (in the form of fixed and variable compensation) performance, skills and competencies, development and growth, and effective visible commitment to the organization.
4. Generate opportunities for individuals' growth through career development, training, and succession planning and talent development.
5. Support a work environment which is governed by our values, sound leadership, and a culture conducive of success through team-based oriented work relationships and a balanced work life mix.

The translation of this philosophy has been implemented through compliance to a strong corporate governance framework. One which is both in adherence to regulatory requirements and in alignment to industry benchmarks and best practices.
In terms of oversight, the Nomination and Remuneration Committee of the Board (NRC) is responsible for ensuring adherence to policy and regulations.

The Bank's Remuneration Policy ensures that all employees, particularly the approved persons and material risk takers, are remunerated fairly and responsibly. Approved persons are employees who undertake functions that require prior approval from the CBB. These include controlled functions named by the CBB, executive positions directly reporting to the CEO and certain heads of function requiring specialized skill sets. Material Risk Takers are employees who are heads of significant business lines and any individuals within their control who have a material impact of the bank's risk profile.

In order to ensure alignment between what we pay the employees and the Bank's business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in line with our performance management system. This assessment also takes into account adherence to the Bank's values, risk, compliance measures and above all acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the Bank believes the latter contributes to the long-term sustainability of the business.

NRC role and focus

The NRC has oversight of all compensation policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices and the business plan and risk profile of the Bank.

The responsibilities of the NRC as regards the variable compensation policy of the Bank, as stated in its mandate, include, but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank. (sentence seems incomplete)
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC will question payouts for income

that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.

- Ensure that for approved persons in risk management, internal audit, operations, financial controls and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

The Board of Directors has established the Nomination & Remuneration Committee in order to address the above mentioned objectives. Details of the committee, including the meeting dates, are included under the Corporate Governance Report. The aggregate remuneration paid to the NRC members during the year in the form of sitting fees amounted to BD8,500.

External consultants

External Consultants have helped the Bank in formulating its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry standards.

This included assistance in reviewing and re-designing new job descriptions, conducting job evaluations and redefining the grading structure, compensation benchmarking and salary pay band design, bonus allocation model and a revamping of the performance management process.

Scope of application of the remuneration policy

The remuneration policy has been adopted on a Bank-wide basis and shall apply to its overseas branches and subsidiaries.

Board remuneration

The Bank's Board's remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that the total remuneration (excluding sitting fees) does not exceed 5% of the Bank's net profit, after all the required deductions outlined in Article 188 of the Companies law, in any financial year. The Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

The variable remuneration is performance related and consists primarily of the annual performance bonus award. The variable remuneration reward is linked to achieving the financial and operational targets set each year, the individual performance of the employees in achieving those targets, and their contribution to the Bank's strategic objectives.

The Bank has a Board approved framework to develop a transparent link between performance and variable remuneration. The framework is designed on the basis that the combination of financial performance and achievement of other non-financial factors, would, all other things being equal, deliver a target bonus pool for the employees. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations). In the framework adopted in determining the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between shareholders and employees.

The key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators.

The NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRC demonstrates that its decisions are consistent with the assessment of the Bank's financial condition and future prospects.

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

For the overall Bank to have any funding for distribution of bonus pool; thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably reduced where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk adjustment and linkage framework.

The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 8% to 9% of the adjusted net profit before the bonus.

REMUNERATION REPORT (CONTINUED)

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the individual financial performance of the business area they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Variable compensation for business units

The variable compensation for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the bank are treated differently by the remunerations system.

Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy is designed to reduce employees' incentives to take excessive and undue risk is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

The Bank's NRC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The NRC keeps itself abreast with the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

In years where the Bank suffers material losses in the financial performance, the risk adjustment framework includes several adjustments. The NRC carefully examines the results of stress test and back test conducted on the variable remuneration policy framework and makes necessary corrections to the staff bonus viz., reduction of Bonus pool, possible changes to vesting period, additional deferrals and malus or clawback provisions.

The NRC, with Board's approval, can rationalize and make the following discretionary decisions:

- Increase/ decrease the ex-post adjustment
- Consider additional deferrals or increase in the quantum of share awards
- Recovery through malus and clawback arrangements

Malus and Clawback framework

The Bank's malus and clawback provisions allows the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable compensation could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be taken by the Bank's Board of Directors.

The Bank's malus and clawback provisions allows the Bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include the following:

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient, given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred compensation

Employees in the grade of Senior Manager and above and those earning total annual compensation of BD 100,000 and above shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	GMs and above	5 highest paid business emp.	SMs and AGMs	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	40%	50%	immediate	-	-	Yes
Upfront shares	-	-	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	50%	40%	3 years*	6 months	Yes	Yes

* The deferral vests on a pro-rata basis over a 3 year period

The NRC, based on its assessment of role profiles and risk taken by an employee could increase the coverage of employees that would subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors

BD'000	**2017**	2016
· Sitting Fees	**23**	20
· Remuneration	**420**	460

REMUNERATION REPORT (CONTINUED)

Details of remuneration paid (continued)

(b) Employees

1. Employee Remuneration

	2017										
	Number Of staff*	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable Remuneration					Total
						Upfront		Deferred			
BD 000's		Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	6	1,137	361	0	0	441	4	106	543	-	2,592
- Control & support	16	1,468	383	0	0	341	56	10	270	-	2,528
Other material risk takers	5	225	74	0	0	66	13	-	53	-	431
Other staff	610	7,884	3,179	0	0	3,072	33	5	161	-	14,334
Overseas staff	33	721	142	0	0	126	-	-	-	-	989
TOTAL	**670**	**11,435**	**4,139**	**0**	**0**	**4,046**	**106**	**121**	**1,027**	-	**20,874**

* This represents staff as at 31 December 2017. 54 staff who left during the year are not included in the Number of Staff however their respective remuneration has been disclosed in the relevant captions.

Note: Other Staff Costs amounting to BD 429,000 incurred towards recruitment and other indirect staff expenses are not included in the above.

Note: The total amount of remuneration includes severance payment made during the year amounting to BD37,000 to one person, this payment was as per the labour law.

	2016										
	Number Of staff*	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable Remuneration					Total
						Upfront		Deferred			
BD 000's		Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	10	1,587	2,711	0	0	709	17	156	847	0	6,028
- Control & support	16	1,317	752	0	0	618	95	31	533	0	3,345
Other material risk takers	4	172	54	0	0	62	12	0	49	0	350
Other staff	523	6,577	2,960	0	0	3,063	43	0	169	0	12,811
Overseas staff	32	777	328	0	0	52	0	3	17	0	1,177
TOTAL	585	10,430	6,804	0	0	4,503	168	189	1,616	0	23,710

Note: Other staff Costs amounting to BD 193,000 incurred towards Recruitment is not included in the above.

2. Deferred Awards

	2017				
	Cash	Shares		Others	Total
	(BD'000)	Number	(BD'000)*	(BD'000)	(BD'000)
Opening Balance	421	3,595,666	2,293	-	2,714
Awarded during the year	189	2,175,730	1,573	-	1,763
Cash/Stock dividend awarded during the year	150	598,751	-	-	150
Paid out/released during the period	(200)	(1,760,925)	(1,047)	-	(1,247)
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested awards	13	-	-	-	13
Closing balance	573	4,609,222	2,819	-	3,392

	2016				
	Cash	Shares		Others	Total
	(BD'000)	Number	(BD'000)*	(BD'000)	(BD'000)
Opening Balance	176	1,732,551	1,292	-	1,468
Awarded during the year	196	2,280,389	1,544	-	1,740
Cash/ stock dividend awarded during the year	100	401,277	-	-	100
Paid out/ released during the period	(59)	(818,551)	(543)	-	(602)
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested awards	8	-	-	-	8
Closing Balance	421	3,595,666	2,293	-	2,714

* Based on the original award price.

Contents

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

National Bank of Bahrain BSC
P.O. Box 106
Manama
Kingdom of Bahrain

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of National Bank of Bahrain BSC (the "Bank"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances

(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(xiv), note 7 and disclosures of credit risk in note 3 of the financial statements)

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (CONTINUED)

Description	How the matter was addressed in our audit
We focused on this area because: • of the significance of loans and advances (representing 40% of total assets) and the related estimation uncertainty to the financial statements; • the Bank makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment; • large loans that are classified as non-performing are assessed individually by management for specific impairment based on knowledge of each individual borrower; and • other homogenous loans are grouped together for impairment assessment on a collective basis.	We understood and tested key controls and focused on: • the credit rating, monitoring process and assessment of the risk rating; • past due ageing of the Bank's loans; • the identification of impairment events; • the governance controls over the impairment processes, including the continuous re-assessment by management of impairment models; • the transfer of data between underlying source systems and the impairment models that the Bank operates; and • the review and approval process that management has in place for the outputs of the Bank's impairment models. In addition to testing the key controls, we have also performed the following procedures: Specific impairment provision: Our procedures included the following where specific impairment is calculated for individual loans: • understanding and evaluating the key impairment triggers used by the Bank for identifying impairment events for the loan and advances portfolio; • challenging whether all impairment events have been identified; • for a sample of exposures that were subject to specific impairment assessment and focusing on those with the most significant potential impact on the financial statements: • we understood the basis of measuring the specific impairment provision and considered whether key judgements were appropriate given the borrowers' circumstances; and • we tested key inputs to the expected cash flows and valuation of collateral held, and challenged management as to whether the valuations were up to date and appropriate adjustments were taken on collateral valuation to account for forced sales value. Collective impairment provision: Our procedures included the following where impairment is calculated on a collective basis for portfolio of loans: • understanding and assessing the appropriateness of the provisioning model for the Bank's portfolio; • testing the inputs that is used in the model and sourced from underlying systems; • testing ageing and credit classification of the loans on a sample basis; and • where modelling assumptions were based on prior historic data, we evaluated whether the output of the models are consistent with the historical losses incurred in the portfolio. We then challenged the appropriateness of the adjustments made by management to reflect current market conditions, with reference to our own knowledge and to market and economic conditions. We assessed the adequacy of the Bank's disclosure in relation to impairment of loans and advances by reference to the requirements of relevant accounting standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (CONTINUED)

Valuation and impairment of investment securities
(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(xiv) and note 8 of the financial statements)

Description	How the matter was addressed in our audit
We focused on this area because: • of the significance of investment securities (representing 34% of total assets) to the financial statements; • of the total investment securities, a significant amount (representing 72% of total investment securities) comprise unquoted debt and equity securities at fair value, the measurement of which requires use of estimates and judgements; and	We understood and tested key controls and focused on: • documenting and assessing the processes in place to record investment transactions and to value the quoted investment portfolio; • agreeing the valuation of the quoted equity and debt securities to externally quoted prices; • for unquoted equity securities, we challenged the appropriateness of the valuation methodology selected and compared key underlying financial data inputs to external sources, investee company financial statements and management information as applicable; • for unquoted debt securities, we tested the valuation by evaluating the appropriateness of the valuation technique used and the inputs that are directly observable from market data;
• the Bank makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	For impairment of debt securities, we: • evaluated individual debt security for any signs of significant financial difficulty of the issuer; • assessed if there has been a default or past due event; • assessed individual debt security for a significant drop in external credit rating; and • assessed if there had been a significant drop in fair value. • For impairment of available-for-sale equity securities, we: • examined whether management has identified all investments that have experienced a decline in fair value below cost; and • evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolonged decline in fair value below cost has led to recognition of impairment. We assessed the adequacy of the Bank's disclosure in relation to impairment of investment securities by reference to the requirements of relevant accounting standards.

Other information
The board of directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors report and other sections which forms part of the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the financial statements
The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board of directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements for the year ended 31 December 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith;

b) the financial information contained in the board of directors report is consistent with the financial statements;

c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Jaafar AlQubaiti.

kpmg

KPMG Fakhro
Partner registration number 83
29 January 2018

STATEMENT OF FINANCIAL POSITION

As at 31 December

		2017		2016	
	Note	**BD millions**	**US$ millions**	BD millions	US$ millions
Assets					
Cash and balances at central banks		**107.04**	**284.68**	102.99	273.92
Treasury bills	4	**419.92**	**1,116.82**	486.80	1,294.69
Placements with banks and other financial institutions	5	**174.01**	**462.79**	160.90	427.93
Trading securities	6	**-**	**-**	0.35	0.93
Loans and advances	7	**1,226.85**	**3,262.90**	1,031.93	2,744.48
Investment securities	8	**1,067.30**	**2,838.56**	1,092.92	2,906.71
Investment in associates	9	**51.58**	**137.18**	50.08	133.18
Interest receivable and other assets	10	**41.79**	**111.15**	38.71	102.96
Property and equipment	19	**13.05**	**34.71**	12.42	33.03
Total assets		**3,101.54**	**8,248.79**	2,977.10	7,917.83
Liabilities					
Due to banks and other financial institutions	11	**384.01**	**1,021.30**	373.81	994.19
Borrowings under repurchase agreements	12	**67.83**	**180.40**	64.28	170.96
Customer deposits	13	**2,165.21**	**5,758.55**	2,088.35	5,554.12
Interest payable and other liabilities	14	**36.55**	**97.21**	35.96	95.64
Total liabilities		**2,653.60**	**7,057.46**	2,562.40	6,814.91
Equity					
Share capital	20	**127.54**	**339.20**	115.95	308.38
Shares under employee share incentive scheme	20	**(1.67)**	**(4.44)**	(1.64)	(4.36)
Share premium	21	**4.02**	**10.69**	2.53	6.73
Statutory reserve	21	**63.77**	**169.60**	57.98	154.19
General reserve	21	**32.40**	**86.17**	32.40	86.17
Other reserves and retained earnings	21	**221.88**	**590.11**	207.48	551.81
Total equity		**447.94**	**1,191.33**	414.70	1,102.92
Total liabilities and equity		**3,101.54**	**8,248.79**	2,977.10	7,917.83

The board of directors approved the financial statements consisting of pages 52 to 83 on 29 January 2018 and signed on its behalf by:

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS
For the year ended 31 December

	Note	2017 BD millions	2017 US$ millions	2016 BD millions	2016 US$ millions
Interest income	23	**102.09**	**271.52**	88.14	234.41
Interest expense	23	**(29.02)**	**(77.19)**	(22.15)	(58.90)
Net interest income		**73.07**	**194.33**	65.99	175.51
Other income	24	**31.40**	**83.51**	30.88	82.14
Total operating income		**104.47**	**277.84**	96.87	257.65
Staff expenses	25	**21.30**	**56.65**	23.90	63.57
Other expenses		**11.69**	**31.09**	10.19	27.13
Total operating expenses		**32.99**	**87.74**	34.09	90.70
Profit before provisions		**71.48**	**190.10**	62.78	166.95
Impairment provisions on loans and advances	7	**(10.40)**	**(27.66)**	(2.08)	(5.53)
Impairment provisions on investments		**(0.07)**	**(0.19)**	(2.46)	(6.54)
Profit for the year		**61.01**	**162.25**	58.24	154.88
Basic and diluted earnings per share	38	**48.4 fils**	**13 cents**	46.3 fils	12 cents

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December

	2017		2016	
	BD millions	**US$ millions**	BD millions	US$ millions
Profit for the year	**61.01**	**162.25**	58.24	154.88
Other comprehensive income:				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation movement	**-**	**-**	(0.01)	(0.03)
Fair value reserve (available-for-sale securities):				
Net change in fair value	**1.11**	**2.95**	19.53	51.95
Net amount transferred to profit or loss	**(0.29)**	**(0.77)**	(1.89)	(5.03)
Share of other comprehensive income of associates	**0.03**	**0.08**	-	-
Total other comprehensive income for the year	**0.85**	**2.26**	17.63	46.89
Total comprehensive income for the year	**61.86**	**164.51**	75.87	201.77

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

In BD millions	Note	Share capital	Shares under employee share incentive scheme	Share premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings*	Total BD millions	US$ millions
Balance at 1 January 2017		**115.95**	**(1.64)**	**2.53**	**57.98**	**32.40**	**25.26**	**14.66**	**167.56**	**414.70**	**1,102.92**
2016 appropriations:											
Cash dividend at 25%		-	-	-	-	-	-	-	**(28.65)**	**(28.65)**	**(76.19)**
Bonus shares issued 10%		**11.59**	**(0.14)**	-	-	**(11.59)**	-	-	**0.14**	-	-
Transfer to donations and charity		-	-	-	-	-	-	**2.91**	**(2.91)**	-	-
Transfer to general reserve		-	-	-	-	**17.38**	-	-	**(17.38)**	-	-
Transfer to statutory reserve		-	-	-	**5.79**	**(5.79)**	-	-	-	-	-
Balance after 2016 appropriations		**127.54**	**(1.78)**	**2.53**	**63.77**	**32.40**	**25.26**	**17.57**	**118.76**	**386.05**	**1,026.73**
Employee shares allocated		-	**0.11**	**1.49**	-	-	-	-	-	**1.60**	**4.26**
Comprehensive income for the year:										-	-
Profit for the year		-	-	-	-	-	-	-	**61.01**	**61.01**	**162.25**
Other comprehensive income		-	-	-	-	-	**0.85**	-	-	**0.85**	**2.26**
Total comprehensive income for the year		-	-	-	-	-	**0.85**	-	**61.01**	**61.86**	**164.50**
Utilisation of donation and charity reserve		-	-	-	-	-	-	**(1.57)**	-	**(1.57)**	**(4.17)**
Balance at 31 December 2017	**20-22**	**127.54**	**(1.67)**	**4.02**	**63.77**	**32.40**	**26.11**	**16.00**	**179.77**	**447.94**	**1,191.33**

* The appropriations for the year 2017 will be submitted to the shareholders at the annual general meeting. These appropriations include BD 31.89 million for cash dividend at 25% (2016: 25%), BD 3.05 million for donations and contributions and a transfer of BD 19.13 million from retained earnings to general reserve. The Board of Directors has also proposed a one for ten bonus issue through utilization of BD 12.76 million from general reserve and the transfer of BD 6.38 million from General Reserve to Statutory Reserve .

For the year ended 31 December 2016

In BD millions	Note	Share capital	Shares under employee share incentive scheme	Share premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings	Total BD millions	US$ millions
Balance at 1 January 2016		105.41	(1.72)	1.21	51.75	32.40	7.62	13.40	154.69	364.76	970.11
2015 appropriations:											
Cash dividend at 25%		-	-	-	-	-	-	-	(25.98)	(25.98)	(69.10)
Bonus shares issued 10%		10.54	(0.15)	-	-	(10.54)	-	-	0.15	-	-
Transfer to donations and charity		-	-	-	-	-	-	2.76	(2.76)	-	-
Transfer to general reserve					0.96	15.81			(16.77)	-	-
Transfer to statutory reserve		-	-	-	5.27	(5.27)	-	-	-	-	-
Balance after 2015 appropriations		115.95	(1.87)	1.21	57.98	32.40	7.62	16.16	109.33	338.78	901.01
Employee shares allocated		-	0.23	1.32	-	-	-	-	-	1.55	4.13
Comprehensive income for the year:		-	-	-	-	-	-	-		-	-
Profit for the year		-	-	-	-	-	-	-	58.24	58.24	154.88
Other comprehensive income		-	-	-	-	-	17.64	-	(0.01)	17.63	46.89
Total comprehensive income for the year		-	-	-	-	-	17.64	-	58.23	75.87	201.77
Utilisation of donation and charity reserve								(1.50)		(1.50)	(3.99)
Balance at 31 December 2016	**20-22**	115.95	(1.64)	2.53	57.98	32.40	25.26	14.66	167.56	414.70	1,102.92

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF CASH FLOW
For the year ended 31 December

	Note	2017		2016	
		BD millions	US$ millions	BD millions	US$ millions
Cash flows from operating activities					
Profit for the year		61.01	162.25	58.24	154.88
Adjustments to reconcile net income to net cash from operating activities:					
Depreciation		1.76	4.68	1.65	4.39
Impairment provisions on loans and advances	7	10.40	27.66	2.08	5.53
Impairment provisions on investments		0.07	0.19	2.46	6.54
Share of profit of associates		(3.75)	(9.97)	(2.99)	(7.95)
Profit for the year after adjustments		69.49	184.81	61.44	163.39
Changes in operating assets and liabilities					
Balances with central banks (mandatory cash reserves)		1.10	2.93	3.36	8.94
Treasury bills		18.64	49.57	(145.38)	(386.65)
Placements with banks and other financial institutions		16.31	43.38	(15.42)	(41.01)
Trading securities		0.35	0.93	5.69	15.13
Loans and advances		(205.32)	(546.06)	17.71	47.10
Investment securities		24.50	65.16	5.98	15.89
Interest receivable and other assets		0.30	0.80	0.88	2.34
Due to banks and other financial institutions		10.19	27.10	102.32	272.13
Borrowings under repurchase agreements		3.54	9.41	(5.37)	(14.28)
Customer deposits		76.87	204.44	(158.67)	(421.99)
Interest payable and other liabilities		0.59	1.57	1.74	4.63
Net cash from/(used in) operating activities		16.56	44.04	(125.72)	(334.39)
Cash flows from investing activities					
Investment in associates		-	-	(10.00)	(26.60)
Dividend received from associates		2.29	6.09	0.65	1.73
Purchase of property and equipment, net		(2.39)	(6.36)	(1.56)	(4.15)
Net cash used in investing activities		(0.10)	(0.27)	(10.91)	(29.02)
Cash flows from financing activities					
Dividends paid		(28.57)	(75.98)	(25.66)	(68.24)
Donations and charities paid		(1.57)	(4.18)	(1.50)	(3.99)
Net cash used in financing activities		(30.14)	(80.16)	(27.16)	(72.23)
Net decrease in cash and cash equivalents		(13.68)	(36.39)	(163.79)	(435.63)
Cash and cash equivalents at 1 January	15	208.86	555.47	372.65	991.10
Cash and cash equivalents at 31 December	15	195.18	519.08	208.86	555.47

The accompanying notes 1 to 43 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2017

1. REPORTING ENTITY

National Bank of Bahrain BSC, a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by Central Bank of Bahrain as a conventional retail bank.

The overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operate under the laws of those respective countries. The Bank is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities and investment advisory services.

The Bank's registered address is National Bank of Bahrain BSC, P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

b. Basis of preparation

The financial statements of the Bank are presented in Bahraini Dinar (BHD) being the functional currency of the Bank. The US Dollar (US$) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US dollar at the rate of BHD 0.376 to US$ 1 (2015: BHD 0.376 to US$ 1).

The financial statements have been prepared on the historical cost convention except for financial instruments at fair value through profit or loss, available-for-sale investments and derivative financial instruments which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented except as described below:

i) New standards, amendments and interpretations effective from 1 January 2017:

There are no new standards, amendments and interpretations, which became effective as of 1 January 2017, that are relevant to the Bank.

ii) New standards, amendments and interpretations issued but not yet effective:

The following standards and interpretations have been issued and are expected to be relevant to the Bank in future periods, with effective dates on or after 1 January 2018.

a) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information in compliance with IFRS 9. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Bank has assessed the estimated impact on initial application of IFRS 9 as at 1 January 2018 on its financial statements as below. This assessment is preliminary because the Bank is in the process of finalizing the transition work. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

IFRS 9 will require the Bank to revise its accounting process and internal controls and these changes are in progress;

Parallel runs of the new systems and associated controls were carried out in second half of 2017, however, it needs to be carried out for an extended period of time;

The process of testing and assessment of controls over its new IT systems and changes to its governance framework are in progress;

Refining and finalizing its models for ECL calculations is in progress; and

The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank presents its first financial statements that include the date of initial application.

	Retained earnings BD'000	Fair value reserve BD'000
Closing balance under IAS 39 (31 December 2017)	**179,771**	**26,115**
Impact on classification and measurements under IFRS 9 (a)		
Investment securities (equity) from available-for-sale to those measured at fair value through other comprehensive income (a.1)	14,234	(14,234)
	194,005	11,881
Impact on recognition of Expected Credit Losses (b)		
Expected credit losses under IFRS 9 for due from banks and debt securities at amortised cost	-	-
Expected credit losses under IFRS 9 for loan and advances at amortised cost including loan commitments and financial guarantees	(3,617)	-
Expected credit losses under IFRS 9 for debt securities at fair value through other comprehensive income	(672)	-
	(4,289)	-
Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018	**189,716**	**11,881**

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a.1) Classification and measurement
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVTOCI) and Fair Value through Profit or Loss (FVTPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are no longer bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on the Bank's assessment, the new IFRS 9 classification requirements is expected to have a material impact on its accounting for loans, investments in debt securities and investments in equity securities as follows:

(a.1) At 31 December 2017, the Bank had equity investments classified as available-for-sale with a fair value of BD 49,142 thousand (USD 130,698 thousand). Under IFRS 9, the Bank has designated these investments as measured at FVTOCI. Due to this reclassification, an increase of BD 14,234 thousand (USD 37,856 thousand) is estimated in the retained earnings along with a corresponding decrease in fair value reserve due to reclassification of impairment on equity investments measured at fair value through other comprehensive income to the reserves.

(a.2) Expected credit losses
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVTOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

(a.3) Financial liabilities
Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

(a.4) Hedge accounting
IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

When initially applying IFRS 9, the Bank has the option to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. However, the Bank determined that all existing hedge relationships that are currently designated in effective hedging relationships would continue to qualify for hedge accounting under IFRS 9. The new hedge accounting requirements under IFRS 9 will not have a material impact on hedge accounting applied by the Bank.

(a.5) Disclosure
IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

b) IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank does not expect to have a significant impact on its financial statements from adoption of this standard.

c) Classification and Measurement of Shared-based Payment Transactions (Amendments to IFRS 2)
Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.

The amendments cover three accounting areas:

- measurement of cash-settled share-based payments;
- classification of share-based payments settled net of tax withholdings; and
- accounting for a modification of a share-based payment from cash-settled to equity-settled.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards. There is currently no guidance in IFRS 2 on how to measure the fair value of the liability incurred in a cash-settled share-based payment.

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Classification and Measurement of Shared-based Payment Transactions (Amendments to IFRS 2) (Continued)
The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method. Therefore, in measuring the liability:

- market and non-vesting conditions are taken into account in measuring its fair value; and
- the number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions

The amendments can be applied prospectively so that prior periods do not have to be restated. Retrospective, or early, application is permitted if companies have the required information. The amendments are effective for annual periods commencing on or after 1 January 2018. The Bank does not expect to have a significant impact on its financial statements.

d) IFRS 16 Leases
IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Bank has started an initial assessment of the potential impact on its financial statements. The Bank has not yet decided whether it will use the optional exemptions.

iii) Early adoption of standards
The Bank did not early adopt new or amended standards in 2017.

c. Foreign currencies
Foreign currency transactions:
Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated to respective functional currencies at the rates of exchange prevailing at the statement of financial position date. Realised and unrealised exchange gains or losses are recognised in the statement of profit or loss and included in "other income".

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised directly in other comperhensive income as part of fair value changes.

Foreign operations:
The assets and liabilities of the overseas branches are translated into Bahraini Dinar at spot exchange rate at the reporting date. The income and expenses of these overseas branches for the period are translated into Bahraini Dinar at average exchange rates. Differences resulting from the translation of the opening net investment in these overseas branches are recognised in other comprehensive income.

d. Use of estimates and management judgement
The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the application of standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets within credit risk characteristics and objective evidence of impairment similar to those in the portfolio to assess impairment.

The Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances–for example selling an insignificant amount close to maturity–the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

The Bank considers that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of significant or prolonged decline requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price for the specific equity instrument and also the general market index. In addition, the Bank considers impairment when there is evidence of deterioration in the financial health of the investee company, industry and sector performance, changes in technology and operational and financing cash flows.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Accounting for income and expenses

i) Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the

period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

ii) Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

iii) Dividend income is recognised when the right to receive a dividend is established.

iv) Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws, based on length of service and final remuneration. This liability, which is unfunded, is considered as a 'Defined Benefit Plan' which represents a defined benefit scheme under IAS 19, and is provided for on the basis of the cost had all such employees left at the statement of financial position date. The cost of providing these retirement benefits is charged to the statement of profit or loss.

The Bank has a voluntary employees saving scheme. The Bank and the employees contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Bank. The Bank's share of contribution to this scheme is charged to the statement of profit or loss.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

f. Financial assets and liabilities

i) Investments at fair value through profit or loss comprised of investments designated at inception at fair value though profit or loss and trading investments.

Investments designated at fair value through profit or loss: Investment securities which are acquired with an intent to hold for an indefinite period of time, and are managed, evaluated and reported internally on a fair value basis are designated as investments at fair value through profit or loss. These investments are carried at fair value based on quoted market prices, fund manager quotes or amounts derived from cash flow models as appropriate. Any unrealised gains and losses arising from changes in fair value are recognised in the statement of profit or loss.

Trading securities: Securities which are either acquired for the purpose of generating profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists are categorised as trading securities. These securities are initially recognised at fair value and subsequently measured at fair value based on quoted market bid prices. Realised and unrealised gains and losses on trading securities are included in the statement of profit or loss.

ii) Held-to-maturity investments

Held-to-maturity investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold until maturity. Held to maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

iii) Available-for-sale investments

Investments which are non-derivative and which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or concerns with respect to credit deterioration are categorised as available-for-sale investments. Available-for-sale investments which comprise both debt and equity investments are initially recognised at fair value, including transaction costs, and subsequently measured at fair value based on quoted market prices, brokers quotes or amounts derived from cash flow models as appropriate. Unrealised gains and losses arising from changes in the fair

values of available-for-sale investments are recognised in other comprehensive income. The cumulative fair value adjustments on available-for-sale investments which are sold or otherwise disposed of and which had previously been recognised in other comprehensive inome are transferred to the statement of profit or loss.

iv) Investment securities measured at amortised cost

Investments measured at amortised cost are those non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Investment securities measured at amortised cost are stated at amortised cost, less provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Financial assets and liabilities (Continued)

v) Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost, adjusted for changes in fair value under any effective hedging arrangement, less provision for impairment.

vi) Customer deposits
Customer deposits are initially recognised at their fair value and subsequently measured at their amortised cost using the effective interest method.

vii) Financial guarantees
Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the contractual terms.

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.

viii) Derivative financial instruments
All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of profit or loss line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of profit or loss under other income.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the statement of profit or loss.

All derivative financial instruments are recognised in the statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

ix) Repos and Reverse repos
Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as Borrowings under Repurchase Agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised on the statement of financial position and the consideration paid is recorded in Placements with Banks and Other Financial Institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective yield method.

x) Cash and cash equivalents
Cash and cash equivalents comprise cash, balances at central banks excluding mandatory cash reserves, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition and are used by the Bank in the management of its short term commitments.

xi) Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method.

xii) Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of a financial instrument using quoted market prices in an active market for that instrument. This includes listed equity and debt securities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For unlisted debt securities fair value is based on brokers quotes, recent arm's length transactions between knowledgeable, willing parties (if available) and discounted cash flow analyses with accepted economic methodologies for pricing financial instruments.

xiii) Categorisation of financial assets
The categorisation of financial assets into fair value through profit or loss, available-for-sale and held-to-maturity is done on the basis of the management intent at the time these securities are acquired and laid down investment policies.

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Financial assets and liabilities (Continued)

xiv) Identification and measurement of impairment
At each reporting date, the carrying amount of the Bank's financial assets not carried at fair value through profit or loss is reviewed to determine whether there is objective evidence that a specific asset may be impaired. Financial asset(s) is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

Objective evidence that financial assets are impaired include significant financial difficulty of the borrower or issuer, default or delinquency of a borrower, the restructuring of a loan or advance by the Bank on terms the Bank would not cosider otherwise, indicators that a borrower or issuer will enter bankruptcy or the disappearance of an active market for a security.

Impairment losses on assets carried at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced directly or through use of an allowance account. The amount of the loss shall be recognized in statement of profit or loss When subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through statement of profit or loss.

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at the present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of loans and advances with similar credit risk characteristics, that are not individually identified as impaired, on the basis of estimates of losses that have been incurred but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

Loans and advances are written off after all reasonable attempts at restructuring and possible courses of action to achieve recovery have been exhausted and the possibility of any further recovery is considered to be remote.

In case of debt securities classified as available-for-sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. The amount of impairment loss is the difference between the acquisition cost, net of any principle repayment and amortisation, and the current fair value, less impairment loss previously recognised in the statement of profit or loss. If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, then the impairment loss is reversed through the statement of profit or loss.

For an investment in equity security classified as available-for-sale, a significant or prolonged decline in fair value below cost is an objective evidence of impairment. Where there is an objective evidence of impairment, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the statement of profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

xv) De-recognition of financial assets and liabilities
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

  If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be de-recognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is recognized at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Impairment of non-financial assets

At each statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

h. Investment in associates

Associates are those entities in which the Bank has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost, which includes the transaction costs. The financial statements of the Bank include its share of the income and expenses and equity movements of associates,

after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases. On cessation of significant influence, even if an investment in an associate becomes an investment in a joint venture, the entity does not re-measure the retained interest. When the Bank's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the associate.

i. Property and equipment

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and Equipment	3 to 8 years

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the statement of profit or loss over the remaining estimated useful life of the property and equipment.

j. Other provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

k. Off-setting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the bank currently has a legally enforceable right to set-off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

l. Settlement date accounting

All "regular way" purchases and sales of financial assets except for derivatives are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative transactions are recognised on trade date i.e. the date the Bank contracts to purchase or sell.

m. Proposed appropriations

Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

n. Remuneration policy

Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the sub-committees of Board.

Employees - The remuneration primarily consists of monthly salaries and allowances. The Bank also has a discretionary profit sharing scheme based on the net income for the year and considering the employees' performance during the year.

The above is in compliance with the sound remuneration practices of the Central Bank of Bahrain.

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Segment reporting
An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Bank. All operating results of the operating segments are reviewed regularly by the Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

p. Earnings per share
The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

q. Income tax liability
The Bank's operations in Bahrain and Abu Dhabi are not liable to income tax. Riyadh branch is subject to income tax in accordance with the Saudi Income Tax Law. Income tax, if any, is charged to the statement of profit or loss.

r. Repossessed property
In certain circumstances, property is repossessed following the foreclosure on loans and advances that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'.

s. Fund administration
The Bank acts as a trustee/manager and in other capacities that result in holding or placing of assets on behalf of trust or other institutions. These assets and income arising thereon are not included in the Bank's financial statements as they are not assets of the Bank.

3. FINANCIAL RISK MANAGEMENT

The Bank is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- operational risk

Risk management framework
The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer and the Audit Committee of the Board.

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit division, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

The Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk
Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available) track record, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties.

The Credit Risk Department of the Bank independently analyses risks and puts forth its recommendations prior to approval by the appropriate authorities for facilities above a specified threshold. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and annual review process supports the identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 16-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk
Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liabilities management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

Market Risk
Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk.

Operational Risk
Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks. Additionally, new products and services are reviewed and assessed for operational risks prior to their implementation.

The scope of the Bank's Internal Audit division encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. The Internal Audit division is operationally independent and reports significant internal control deficiencies to the Audit Committee.

Capital Management
The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

4. TREASURY BILLS
Treasury bills are short-term in nature. These include treasury bills issued by the Government of Bahrain and Government of Saudi Arabia. They also include short-term Islamic Sukuk issued by the Government of Bahrain.

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Government of Bahrain	**409,912**	**1,090,191**	476,800	1,268,085
Government of Saudi Arabia	**10,011**	**26,625**	10,002	26,601
Total	**419,923**	**1,116,816**	486,802	1,294,686

5. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS
Placements with banks and other financial institutions are part of the Bank's money market activities and comprises short-term lending to banks and other financial institutions.

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Placements with banks	**158,217**	**420,790**	145,484	386,926
Placements with other financial institutions	**15,792**	**42,000**	15,416	41,000
Total	**174,009**	**462,790**	160,900	427,926

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Current and call accounts	**15,086**	**40,124**	12,352	32,851
Term placements	**158,923**	**422,668**	148,548	395,075
Total	**174,009**	**462,792**	160,900	427,926

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For the Year ended 31 December 2017

6. TRADING SECURITIES

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Equity securities	-	-	349	928
Total	-	-	349	928

7. LOANS AND ADVANCES

a) As at 31 December

	2017		2016	
	BD'000	**US$'000**	BD'000	US$'000
Loans and advances to non-banks	**1,112,779**	**2,959,519**	947,443	2,519,796
Loans and advances to banks	**156,798**	**417,016**	134,028	356,457
Less: Provision for impairment	**(42,727)**	**(113,636)**	(49,545)	(131,769)
Total	**1,226,850**	**3,262,899**	1,031,926	2,744,484

b) As at 31 December 2017, the amount of floating rate loans for which interest was being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BD 612.70 million (US$ 1,629.40 million) [31 December 2016: BD 515.30 million (US$ 1,370.50 million)].

c) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are defined as non-performing on which interest in not being accrued. The following is the ageing schedule of non-performing loans and advances. The table shows the time period since the date of last repayment of principal or interest by the customer.

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Over 3 months to 1 year	**25,684**	**68,309**	7,544	20,063
1 to 3 years	**13,349**	**35,503**	21,780	57,926
Over 3 years	**48,726**	**129,590**	54,253	144,290
Total	**87,759**	**233,402**	83,577	222,279

Loans that are "past due below 90 days but not impaired" are those for which contractual interest and principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Bank. As at 31 December 2017, loans past due below 90 days but not impaired amounted to BD 9.87 million (US$ 26.26 million) [31 December 2016: BD 3.78 million (US$ 10.04 million)].

d) The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be de-recognized and the renegotiated loan recognized as a new loan.

The Bank renegotiates loans to customers as a result of changes in anticipated cash flows and / or in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. During 2017, credit facilities amounting to BD 0.1 million (US$ 0.13 million) were restructured [2016: Nil]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections and amending the terms of loan covenants. Due to minor nature of concessions, there was no significant impact on the Bank's provisions on loans and advances impairment and present and future earnings.

e) The Bank holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and/or shares and sovereign/ bank guarantees. As at 31 December 2017, loans and advances amounting to BD 340.2 million (US$ 904.80 million) [31 December 2016: BD 222.59 million (US$ 591.99 million)] were fully collateralized and loans and advances amounting to BD 48.90 million (US$ 130.1 million) [31 December 2016: BD 11.08 million (US$ 29.47 million)] were partly collateralized with a collateral value of BD 29.22 million (US$ 77.71 million) [31 December 2016: BD 4.14 million (US$ 11.01 million)].

f) Exposure to credit risk

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Total carrying amount	**1,226,850**	**3,262,899**	1,031,926	2,744,484
1. Individually impaired				
Substandard	**77,747**	**206,774**	58,130	154,601
Doubtful	**1,916**	**5,096**	1,869	4,971
Loss	**8,096**	**21,532**	23,578	62,707
Individually impaired net of interest in suspense	**87,759**	**233,402**	83,577	222,279
Specific provision for impairment	**(30,261)**	**(80,481)**	(36,509)	(97,098)
Individually impaired carrying amount	**57,498**	**152,921**	47,068	125,181
2. Past due below 90 days but not impaired				
Gross amount	**9,874**	**26,262**	3,776	10,043
Collective impairment provision	**(104)**	**(277)**	(48)	(128)
Past due but not impaired carrying amount	**9,770**	**25,985**	3,728	9,915

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

7. LOANS AND ADVANCES (CONTINUED)

f) Exposure to credit risk (Continued)

3. Neither past due nor impaired by internal rating

	2017		2016	
	BD'000	US$'000	BD'000	US$'000
Rated 1	55,884	148,628	47,352	125,936
Rated 2	4,884	12,990	23,900	63,564
Rated 3	81,916	217,862	64,624	171,872
Rated 4+ to 4-	107,215	285,146	136,248	362,362
Rated 5+ to 5-	199,222	529,846	116,703	310,380
Rated 6+ to 6-	129,742	345,058	215,431	572,955
Rated 7	171,902	457,186	13,578	36,112
Unrated*	421,179	1,120,155	376,282	1,000,750
Gross amount	1,171,944	3,116,871	994,118	2,643,931
Collective impairment provision	(12,362)	(32,878)	(12,988)	(34,543)
Carrying amount of neither past due nor impaired	1,159,582	3,083,993	981,130	2,609,388
Total carrying amount	1,226,850	3,262,899	1,031,926	2,744,484

* Includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

g) Impairment provisions on loans and advances

Movements during the year

	Specific impairment provision		Collective impairment provision		Total impairment provisions	
Amounts in BD '000	2017	2016	2017	2016	2017	2016
At 1 January	36,509	35,819	13,036	12,815	49,545	48,634
Net charge for the year	9,225	1,074	1,175	1,010	10,400	2,084
Amounts written off against provision	(17,262)	(1,173)	-	-	(17,262)	(1,173)
Transfers, recoveries & write backs	1,789	789	(1,745)	(789)	44	-
At 31 December	30,261	36,509	12,466	13,036	42,727	49,545

The provisions relate to loans and advances to non-banks. In accordance with the Central Bank of Bahrain guidelines, interest on non-performing loans is reversed from income and is accounted for on a cash basis.

8. INVESTMENT SECURITIES

Investment securities comprise the following:

	2017		2016	
As at 31 December	BD'000	US$'000	BD'000	US$'000
Available-for-sale investments	1,081,285	2,875,758	1,106,784	2,943,574
Provision for impairment on available-for-sale investments	(14,234)	(37,856)	(14,164)	(37,670)
Subtotal	1,067,051	2,837,902	1,092,620	2,905,904
Investments designated at fair value through profit or loss	249	662	303	806
Total investment securities	1,067,300	2,838,564	1,092,923	2,906,710

A) Available-for-sale investments

i. Breakdown of quoted and unquoted investments As at 31 December

	2017		2016	
As at 31 December	BD'000	US$'000	BD'000	US$'000
Quoted:				
Debt securities	332,463	884,210	320,614	852,697
Equity securities	52,508	139,649	53,409	142,045
Total	384,971	1,023,859	374,023	994,742
Provision for impairment on available for sale securities	(14,234)	(37,856)	(14,164)	(37,670)
Total net quoted securities	370,737	986,003	359,859	957,072
Unquoted:				
Debt securities	685,445	1,822,992	722,429	1,921,353
Equity securities	10,869	28,907	10,332	27,479
Total net unquoted securities	696,314	1,851,899	732,761	1,948,832
Total Available-for-sale investments	1,067,051	2,837,902	1,092,620	2,905,904

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

8. INVESTMENT SECURITIES (CONTINUED)

ii. Breakdown between fixed rate and floating rate available-for-sale debt securities

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Fixed rate debt securities	**350,534**	**932,272**	425,720	1,132,234
Floating rate debt securities *	**667,374**	**1,774,931**	617,323	1,641,816
Total	**1,017,908**	**2,707,203**	1,043,043	2,774,050

* Floating rate debt securities at 31 December 2017 include securities amounting to BD 659.61 million (US$ 1,754.30 million) [31 December 2016: BD 608.25 million (US$ 1,617.70 million)] of hedged fixed rate bonds.

iii. Breakdown of available-for-sale debt securities by rating

The ratings given below are by established rating agencies.

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
AAA	24,121	64,152	9,339	24,838
AA	**13,270**	**35,293**	12,304	32,723
A	21,721	57,769	36,384	96,766
BBB	**3,740**	**9,947**	18,138	48,239
BB **	**11,326**	**30,122**	965,015	2,566,529
B *	**930,399**	**2,474,463**	-	-
Unrated	**13,331**	**35,455**	1,863	4,955
Total	**1,017,908**	**2,707,201**	1,043,043	2,774,050

B) Investments designated at fair value through profit or loss

Fair value through profit or loss investment securities comprise investments as under:

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Investments in managed funds	**249**	**662**	303	806
Total	**249**	**662**	303	806

9. INVESTMENT IN ASSOCIATES

The Bank has a 29.06% shareholding in Bahrain Islamic Bank BSC. The Bahrain Islamic Bank is incorporated in the Kingdom of Bahrain and operates under a retail banking license issued by the Central Bank of Bahrain and carries out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a).

The Bank has a 34.84% interest in The Benefit Company BSC (c) incorporated in the Kingdom of Bahrain. The Benefit Company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain Cheque Truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Bank has a 24.27% interest of the units issued by the Bahrain Liquidity Fund (BLF). BLF was set up in 2016 as an open ended fund registered as Private Investment Undertaking "PIU" as per Central Bank of Bahrain Rulebook Volume 7. The main objective of BLF is to add liquidity to Bahrain Bourse, which over a period of time should result in enhancing investors' confidence in the market's listed securities.

The Bank has recognised the above investments as equity accounted associates in accordance with IAS 28 "Investment in associates".

	2017		2016	
	BD'000	**US$'000**	BD'000	US$'000
At 1 January	**50,076**	**133,181**	37,749	100,395
Acquisition during the year	**-**	**-**	10,000	26,596
Share of profit	**3,753**	**9,981**	2,985	7,939
Dividends received	**(2,285)**	**(6,077)**	(650)	(1,729)
Share of change in fair value reserve	**33**	**88**	(8)	(21)
At 31 December	**51,577**	**137,173**	50,076	133,180

Shares of Bahrain Islamic Bank are listed on the Bahrain Stock Exchange and the quoted price on 31 December 2017 is BD 0.150 (31 December 2016: BD 0.123) . The estimated fair value of the investment based on this price is BD 44.17 million (US$ 117.48 million) [(31 December 2016: BD 36.22 million) (US$ 96.33 million)].

The financial statements of the associates used for applying the equity accounting are as of 30 September 2017 which is different from the reporting date of the Bank. Accordingly, amounts have been adjusted for material transactions, if any, for the period from 30 September 2017 to the Bank's reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2017

10. INTEREST RECEIVABLE AND OTHER ASSETS

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Interest receivable	**24,341**	**64,737**	22,251	59,178
Accounts receivable & prepayments	**8,956**	**23,819**	8,611	22,902
Positive fair value of derivatives	**4,179**	**11,114**	3,455	9,189
Others *	**4,318**	**11,481**	4,397	11,694
Total	**41,794**	**111,151**	38,714	102,963

* Others include BD 4.18 million (US$ 11.12 million) [31 December 2016: BD 4.18 million (US$ 11.12 million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at lower of cost and net realisable value.

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions consists of short-term borrowings from banks and other financial institutions.

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Current and call accounts	**54,085**	**143,843**	74,150	197,207
Term deposits	**329,922**	**877,452**	299,664	796,979
Total	**384,007**	**1,021,295**	373,814	994,186

12. BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amounts to BD 67.83 million (US$ 180.40 million) [31 December 2016: BD 64.28 million (US$ 170.96 million)] and the fair value of the investment securities pledged as collateral amounts to BD 71.92 million (US$ 191.27 million) [31 December 2016: BD 69.45 million (US$ 184.71 million)].

13. CUSTOMER DEPOSITS

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Repayable on demand or at short notice	**1,223,858**	**3,254,941**	1,188,342	3,160,484
Term deposits	**941,356**	**2,503,606**	900,006	2,393,633
Total	**2,165,214**	**5,758,547**	2,088,348	5,554,117

14. INTEREST PAYABLE AND OTHER LIABILITIES

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Interest payable	**18,784**	**49,957**	18,809	50,024
Creditors & account payables	**3,023**	**8,040**	2,152	5,723
Deferred income	**1,364**	**3,628**	1,800	4,787
Employee benefits	**9,355**	**24,880**	11,066	29,431
Negative fair value of derivatives	**1,115**	**2,965**	719	1,912
Others	**2,908**	**7,736**	1,413	3,758
Total	**36,549**	**97,206**	35,959	95,635

15. CASH AND CASH EQUIVALENTS

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Cash and balances with central banks*	**23,739**	**63,136**	18,589	49,439
Treasury bills	**-**	**-**	48,242	128,303
Placements with banks and other financial institutions	**171,443**	**455,965**	142,025	377,726
Total	**195,182**	**519,101**	208,856	555,468

* Exclude balances with central banks of BD 83.30 million (US$ 221.54 million) [31 December 2016: BD 84.40 million (US$ 224.47 million)] maintained for the purpose of the cash reserve ratio requirement set by the central banks.

16. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees and collateral from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual amounts are not representative of the actual future credit exposure or liquidity requirements of the Bank.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counter parties since origination, the Bank has determined that the fair value of contingent liabilities and undrawn loan commitments is not material.

NOTES TO THE FINANCIAL STATEMENTS
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16. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS (CONTINUED)

	2017		2016	
As at 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Contingent liabilities			27,492	73,117
Liabilities on confirmed documentary credits	**33,558**	**89,250**		
Guarantees:			43,815	116,529
Counter guaranteed by banks	**48,662**	**129,420**	114,278	303,931
Others	**117,249**	**311,832**	185,585	493,577
Sub-total	**199,469**	**530,502**		
Banking commitments				
Undrawn loan commitments	**82,883**	**220,434**	58,195	154,774
Forward commitments:				
Interbank placing	**8,000**	**21,277**	-	-
Sub-total	**90,883**	**241,711**	58,195	154,774
Total	**290,352**	**772,213**	243,780	648,351

17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank utilises various derivative and foreign exchange financial instruments for trading, asset/liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract/notional principal amounts do not represent balances subject to credit or market risk. Contract/notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Bank had all these counter parties defaulted. For written options, there is no credit risk, as they represent obligations of the Bank. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Bank in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value:

Amounts in BD '000	Notional principal amount		Replacement cost		Fair value	
As at 31 December	**2017**	2016	**2017**	2016	**2017**	2016
Interest rate contracts						
Interest rate swaps	**651,275**	644,689	**2,164**	1,160	**2,164**	1,160
Sub-total	**651,275**	644,689	**2,164**	1,160	**2,164**	1,160
Foreign exchange contracts						
Outright spot and forward contracts	**293,168**	259,048	**861**	1,569	**337**	1,346
Swap agreements	**490,254**	313,758	**1,154**	726	**572**	230
Options	**905**	-	**-**	-	**(9)**	-
Sub-total	**784,327**	572,806	**2,015**	2,295	**900**	1,576
Total	**1,435,602**	1,217,495	**4,179**	3,455	**3,064**	2,736

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2017

17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS (CONTINUED)

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows:

Amounts in BD '000 **As at 31 December**	**2017** **Up to 1 year**	**More than one year**	**Total**	2016 Up to 1 year	More than one year	Total
Interest rate contracts						
Interest rate swaps	**-**	**651,275**	**651,275**	-	644,689	644,689
Sub-total	**-**	**651,275**	**651,275**	-	644,689	644,689
Foreign exchange contracts						
Outright spot and forward contracts	**219,214**	**73,954**	**293,168**	259,048	-	259,048
Swap agreements	**490,254**	**-**	**490,254**	313,758	-	313,758
Options	**905**	**-**	**905**	-	-	-
Sub-total	**710,373**	**73,954**	**784,327**	572,806	-	572,806
Total	**710,373**	**725,229**	**1,435,602**	572,806	644,689	1,217,495

18. CAPITAL COMMITMENTS

At 31 December 2017 commitments for capital expenditure amounted to BD 1.00 million (US$ 2.66 million) [31 December 2016: BD 1.05 million (US$ 2.79 million)].

19. PROPERTY & EQUIPMENT

	Land		**Buildings**		**Furniture and equipment**		**Total**	
	BD '000	**US$ '000**	**BD '000**	**US$ '000**	**BD '000**	**US$ '000**	**BD '000**	**US$ '000**
Cost	**967**	**2,572**	**25,487**	**67,785**	**18,163**	**48,306**	**44,617**	**118,663**
Accumulated depreciation	**-**	**-**	**(18,009)**	**(47,897)**	**(13,557)**	**(36,056)**	**(31,566)**	**(83,953)**
Net book value at 31 December 2017	**967**	**2,572**	**7,478**	**19,888**	**4,606**	**12,250**	**13,051**	**34,710**
Net Book value at 31 December 2016	967	2,572	7,869	20,928	3,585	9,533	12,421	33,033

The depreciation charge for 2017 amounted to BD 1.76 million (US$ 4.68 million) [2016: BD 1.65 million (US$ 4.39 million)].

The above includes capital work in progress at cost. When the asset is ready to use, the same is capitalised and depreciated in accordance with the Bank's policies.

20. SHARE CAPITAL

	2017 **BD'000**	**US$'000**	2016 BD'000	US$'000
Authorised share capital				
1,500,000,000 (2015: 1,500,000,000) ordinary shares of 100 fils each	**150,000**	**398,936**	150,000	398,936
Issued and fully paid share capital				
At 1 January 1,159,498,560 ordinary shares of 100 fils each (at 1 Jan 2016: 1,054,089,600 shares of 100 fils each)	**115,950**	**308,377**	105,409	280,343
Bonus issue (one for ten shares held) *	**11,594**	**30,835**	10,541	28,034
At 31 December 1,275,448,416 ordinary shares of 100 fils each (at 31 Dec 2016: 1,159,498,560 shares of 100 fils each) **	**127,544**	**339,212**	115,950	308,377

* The shareholders annual general ordinary and extra ordinary meeting for the year 2016 held on 8th March 2017 approved the increase of issued and fully paid capital by the issue of bonus shares at the rate of one additional share for every ten shares held amounts to BD 11.59 million.

** The Board of Directors has proposed to increase the issued and fully paid capital of the Bank to BD 140.30 million by the issue of bonus shares at the rate of one additional share for every ten shares held amounting to BD 12.76 million. These shares will rank pari passu with all other shares for future dividends and distribution. This bonus issue is proposed to be made through utilisation of BD 12.76 million from General Reserve.

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20. SHARE CAPITAL (CONTINUED)

Employee Share Incentive Scheme

Employee Share Incentive Scheme ("Scheme") was approved at the ordinary general meeting on 11 March 2015 in pursuant to CBB's Sound Remuneration Practices. As a result, 19,104,000 ordinary shares amounting to BD 1.91 million were issued in 2015 to a special purpose vehicle, NBB Hawafiz SPC, to hold the beneficial interest of the shares under the scheme. Shares are allocated to the employees under the scheme. The allocated share under the Scheme are entitled to cash & stock dividend and subject to malus and clawback provisions of the Scheme. As at 31 December 2017 there are 15,659,167 (2016: 16,442,238) shares unallocated. These unallocated shares under the Scheme are deducted from equity.

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories is shown below:

	31 December 2017			31 December 2016		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	**387,002,253**	**1,142**	**30.3%**	350,352,486	1,134	30.2%
1% up to less than 5%	**186,109,030**	**8**	**14.6%**	170,657,770	8	14.7%
5% up to less than 10%	**-**	**-**	**-**	-	-	-
10% up to less than 20%	**138,787,474**	**1**	**10.9%**	126,170,432	1	10.9%
20% up to less than 50%	**563,549,659**	**1**	**44.2%**	512,317,872	1	44.2%
More than 50%	**-**	**-**	**-**	-	-	-
Total	**1,275,448,416**	**1,152**	**100%**	1,159,498,560	1,144	100%

The distribution of ordinary shares ownership based on nationality of the shareholder is shown below:

	31 December 2017			31 December 2016		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	**1,233,139,708**	**1,069**	**96.6%**	1,097,510,160	1,029	94.6%
Other GCC countries	**42,090,218**	**74**	**3.3%**	61,196,769	89	5.3%
Others	**218,490**	**9**	**0.1%**	791,631	26	0.1%
Total	**1,275,448,416**	**1,152**	**100%**	1,159,498,560	1,144	100%

44.2% of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co, that is 100% owned by the Government of Bahrain. 10.9% of shares is owned by the Social Insurance Organisation, Kingdom of Bahrain. The rest of the share capital is widely held primarily by the citizens of and entities incorporated in the Kingdom of Bahrain.

21. RESERVES

a) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital.

The Board of Directors has proposed to the shareholders to appropriate BD 6.4 million from General Reserve to Statutory Reserve.

b) General reserve

The reserve has been created in accordance with the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank.

c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired. Further, it includes Bank's share of other comprehensive income of associates.

d) Donation and charity reserve

Based on the recommendations of the Board of Directors, upon shareholders' approval an amount is transferred from the profit for the year to this reserve. The reserve represents the unutilised amount of the donations and charities approved by the shareholders.

e) Share premium

Under the Employee Share Incentive Scheme, the Bank has allocated 6,548,574 ordinary shares with a nominal value of BD 0.65 million to the employees, which has resulted in share premium of BD 4.02 million.

22. APPROPRIATIONS

The appropriations relating to the year 2016 were approved at the last annual general meeting held on 8 March 2017.

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23. INTEREST INCOME / INTEREST EXPENSE

a) INTEREST INCOME

	2017		2016	
For the year ended 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Loans and advances to non banks	**38,994**	**103,707**	34,457	91,641
Loans and advances to banks	**4,408**	**11,723**	3,403	9,051
Treasury bills	**13,619**	**36,221**	11,190	29,761
Placements with banks and other financial institutions	**1,390**	**3,697**	1,232	3,277
Investment securities	**43,342**	**115,271**	37,697	100,258
Derivative assets held for risk management	**340**	**904**	158	420
Total	**102,093**	**271,523**	88,137	234,408

b) INTEREST EXPENSE

	2017		2016	
For the year ended 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Deposits from customers	**21,685**	**57,672**	18,688	49,702
Deposits from banks and other financial institutions	**6,065**	**16,130**	2,790	7,420
Borrowings under repurchase agreements	**530**	**1,410**	180	479
Derivative liabilities held for risk management	**744**	**1,979**	489	1,301
Total	**29,024**	**77,191**	22,147	58,902

24. OTHER INCOME

	2017		2016	
For the year ended 31 December	**BD'000**	**US$'000**	BD'000	US$'000
a) Fees and commission income				
Fees and commission on loans and advances	**11,332**	**30,138**	9,557	25,418
Commission on sale of managed funds	**158**	**420**	145	386
Other fees and commission	**7,670**	**20,400**	7,083	18,838
Less: fees and commission paid	**(5,060)**	**(13,457)**	(4,442)	(11,814)
Sub-total	**14,100**	**37,501**	12,343	32,828
b) Other operating income				
Profit on sale of available for sale investments	**477**	**1,269**	4,597	12,226
Gain / (loss) on fair value through profit or loss investments	**99**	**263**	(114)	(303)
Dividend income	**3,170**	**8,430**	4,042	10,750
Profit on exchange dealing and transactions	**5,151**	**13,699**	5,249	13,960
Profit on trading securities and derivatives	**446**	**1,186**	37	98
Share of profit of associates	**3,753**	**9,981**	2,985	7,939
Other income	**4,204**	**11,181**	1,744	4,638
Sub-total	**17,300**	**46,009**	18,540	49,308
Total other income	**31,400**	**83,510**	30,883	82,136

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25. STAFF EXPENSES

	2017		2016	
For the year ended 31 December	**BD'000**	**US$'000**	BD'000	US$'000
Salaries, allowances and bonuses	**17,120**	**45,532**	18,300	48,670
Social security & gratuity	**1,564**	**4,158**	2,058	5,473
Housing & other benefits	**2,218**	**5,897**	3,297	8,768
Others	**401**	**1,067**	248	660
Total	**21,303**	**56,654**	23,903	63,571

26. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

	2017		2016	
For the year ended 31 December	**BD'000**	**US$'000**	BD'000	US$'000
US Dollar (long position) - unhedged	**65,149**	**173,269**	18,344	48,787
UAE Dirhams (long position) - unhedged	**1,398**	**3,718**	4,172	11,096
Saudi Riyal (long position) - unhedged	**637**	**1,694**	14,251	37,902
Qatari Riyal (long position) - unhedged	**6,581**	**17,503**	10,638	28,293

The Bahraini dinar has a fixed rate of exchange against the US dollar.

27. RELATED PARTY DISCLOSURES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business . The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to him. Significant balances at the reporting date in regard to related parties and transactions during the year with related parties comprised the following:

Amounts in BD '000	Major shareholder and related entities		Directors & key personal management		Associates	
As at 31 December	**2017**	2016	**2017**	2016	**2017**	2016
Loans and advances	**251,295**	186,782	**4,230**	14,051	**38,941**	-
Treasury bills, bonds and equities	**1,353,797**	1,449,642	**-**	-	**51,577**	50,076
Customers' deposits	**229,162**	114,260	**30,101**	46,561	**5,936**	4,441
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	**92,395**	88,785	**10,659**	5,915	**-**	-

	2017	2016	**2017**	2016	**2017**	2016
As at 31 December	**BD'000**	US$'000	**BD'000**	US$'000	**BD'000**	US$'000
Loans advanced	**116,096**	5,513	**8,479**	18,892	**38,800**	-
Loans repaid	**79,602**	35,458	**14,937**	18,499	**-**	37,661
Net (decrease) / increase in overdrafts	**28,019**	52,419	**(3,363)**	8,768	**-**	-
Treasury bills, bonds and equities purchased	**742,229**	1,252,829	**-**	-	**-**	10,000
Treasury bills, bonds and equities matured/sold	**838,074**	1,176,932	**-**	-	**-**	-
Interest income	**59,633**	59,306	**224**	296	**749**	305
Interest expense	**1,625**	453	**247**	392	**40**	31
Share of profit of associates	**-**	-	**-**	-	**3,753**	2,985
Dividend Income	**321**	84	**-**	-	**-**	-
Directors Remuneration and sitting fees	**168**	167	**275**	313	**-**	-
Short term employee benefits	**-**	-	**3,025**	5,485	**-**	-
Post employment retirement benefits	**-**	-	**248**	651	**-**	-

During the year, impairment provision of BD 6.35 million (US$ 16.89) [2016: Nil] have been recorded against outstanding balances with related parties.

The Bank qualifies as a government related entity under the definitions provided in the IAS 24 as one of its significant shareholder is government owned. In addition to government exposures reported above, in its normal course of business, the bank provides commercial lending, liquidity management and other banking services to and also avails services from various semi government organizations and government owned companies in the Kingdom of Bahrain.

28. ASSETS UNDER ADMINISTRATION

Assets administered on behalf of customers to which the Bank does not have legal title are not included in the statement of financial position. At 31 December 2017, assets under administration amounted to BD 107.79 million (US$ 286.66 million) [31 December 2016 : BD 113.97 million (US$ 303.11 million)].

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29. GEOGRAPHICAL DISTRIBUTION

Amounts in BD '000	Assets		Liabilities		Contingent liabilities and banking commitments	
As at 31 December	**2017**	2016	**2017**	2016	**2017**	2016
GCC	**2,930,855**	2,881,553	**2,531,531**	2,474,532	**947,412**	706,069
U.S.A.	**125,627**	12,224	**26,773**	10,375	**226,391**	260,401
Europe	**8,090**	54,561	**39,126**	66,101	**540,772**	490,002
Rest of the World	**36,971**	28,763	**56,169**	11,397	**11,379**	4,803
Total	**3,101,543**	2,977,101	**2,653,599**	2,562,405	**1,725,954**	1,461,275

30. DISTRIBUTION BY SECTOR

Amounts in BD '000	Assets		Liabilities		Contingent liabilities and banking commitments	
As at 31 December	**2017**	2016	**2017**	2016	**2017**	2016
Government	**1,606,462**	1,656,172	**443,982**	424,687	**70,165**	87,461
Manufacturing / trading	**133,974**	116,788	**149,748**	157,583	**73,178**	31,689
Banks / financial institutions	**605,613**	590,067	**511,478**	492,608	**1,517,282**	1,269,703
Construction	**77,628**	82,367	**97,882**	92,612	**35,625**	34,804
Personal	**422,875**	389,941	**1,231,679**	1,252,287	**2,336**	494
Others	**254,991**	141,766	**218,830**	142,628	**27,368**	37,124
Total	**3,101,543**	2,977,101	**2,653,599**	2,562,405	**1,725,954**	1,461,275

31. CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

a) By Industry

Amounts in BD '000 **As at 31 December 2017**	**Government Bahrain**	**Other countries**	**Manufacturing/ trading**	**Banks/ financial institutions**	**Construction**	**Personal**	**Others**	**Total**
Assets								
Balances at central banks	**-**	**-**	**-**	**88,233**	**-**	**-**	**-**	**88,233**
Treasury bills	**409,912**	**10,011**	**-**	**-**	**-**	**-**	**-**	**419,923**
Placements with banks and other financial institutions	**-**	**-**	**-**	**174,009**	**-**	**-**	**-**	**174,009**
Loans and advances	**219,345**	**-**	**123,236**	**186,350**	**76,743**	**422,086**	**199,090**	**1,226,850**
Investment securities	**919,463**	**31,685**	**1,883**	**53,356**	**-**	**-**	**11,521**	**1,017,908**
Interest receivable and other assets	**15,908**	**138**	**208**	**5,116**	**58**	**892**	**18,567**	**40,887**
Total assets	**1,564,628**	**41,834**	**125,327**	**507,064**	**76,801**	**422,978**	**229,178**	**2,967,810**
Contingent liabilities and banking commitments	**70,068**	**97**	**66,180**	**89,544**	**35,625**	**1,470**	**27,368**	**290,352**
Derivatives (notional)	**-**	**-**	**6,998**	**1,427,738**	**-**	**866**	**-**	**1,435,602**

Amounts in BD '000 As at 31 December 2016	Government Bahrain	Other countries	Manufacturing/ trading	Banks/financial institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	89,892	-	-	-	89,892
Treasury bills	476,800	10,002	-	-	-	-	-	486,802
Placements with banks and other financial institutions	-	-	-	160,900	-	-	-	160,900
Loans and advances	191,998	-	109,827	166,322	80,966	389,344	93,469	1,031,926
Investment securities	952,251	9,339	1,888	77,729	263	-	1,876	1,043,346
Interest receivable and other assets	15,778	4	188	4,226	287	597	16,991	38,071
Total assets	1,636,827	19,345	111,903	499,069	81,516	389,941	112,336	2,850,937
Contingent liabilities and banking commitments	87,461	-	31,689	52,208	34,804	494	37,124	243,780
Derivatives (notional)	-	-	-	1,217,495	-	-	-	1,217,495

The balances at the end of the year are representative of the position during the year and hence average balances have not been separately disclosed.

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31. CONCENTRATION OF CREDIT RISK (CONTINUED)

a) By Industry (Continued)

The above includes certain exposures to customers / counter parties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at 31 December 2017:

Counterparty	Counterparty type	Total Exposure
Counterparty A	Sovereign	**1,401,962**
Counterparty B	Sovereign	**212,997**
Counterparty C	Central Bank	**184,413**
Counterparty D	Sovereign	**96,597**
Counterparty E	Bank	**74,050**

(b) By geographical regions:

Amounts in BD '000 **As at 31 December 2017**	**GCC**	**USA**	**Europe**	**Rest of the World**	**Total**
Assets					
Balances at central banks	**88,233**	**-**	**-**	**-**	**88,233**
Treasury bills	**419,923**	**-**	**-**	**-**	**419,923**
Placements with banks and other financial institutions	**163,746**	**3,917**	**5,079**	**1,267**	**174,009**
Loans and advances	**1,116,968**	**94,981**	**-**	**14,901**	**1,226,850**
Investment securities	**972,644**	**24,557**	**-**	**20,707**	**1,017,908**
Interest receivable and other assets	**35,816**	**2,172**	**2,805**	**94**	**40,887**
Total assets	**2,797,330**	**125,627**	**7,884**	**36,969**	**2,967,810**
Contingent liabilities and banking commitments	**264,149**	**67**	**22,946**	**3,190**	**290,352**
Derivatives (notional)	**683,263**	**226,324**	**517,826**	**7,189**	**1,434,602**

Amounts in BD '000 As at 31 December 2016	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	89,892	-	-	-	89,892
Treasury bills	486,802	-	-	-	486,802
Placements with banks and other financial institutions	135,549	1,596	23,092	663	160,900
Loans and advances	996,457	-	14,863	20,606	1,031,926
Investment securities	1,011,967	10,598	13,461	7,320	1,043,346
Interest receivable and other assets	34,758	30	3,146	137	38,071
Total assets	2,755,425	12,224	54,562	28,726	2,850,937
Contingent liabilities and banking commitments	218,489	86	21,046	4,159	243,780
Derivatives (notional)	487,580	260,315	468,956	644	1,217,495

32. INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions.

Assets and liabilities are placed in maturity buckets based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customers' deposits for which no specific contractual maturity or repricing dates exist are placed in ladders based on the Bank's judgment concerning their most likely repricing behavior.

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32. INTEREST RATE RISK (CONTINUED)

The repricing profile and effective interest rate of the various asset and liability categories are as follows:

Amounts in BD '000 **As at 31 December 2017**	**Effective interest rate %**	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	**Rate insensitive**	**Total**
Assets								
Cash and balances at central banks	-	-	-	-	-	-	107,039	107,039
Treasury bills	2.96%	134,447	145,821	139,655	-	-	-	419,923
Placements with banks and other financial institutions	1.54%	158,923	-	-	-	-	15,086	174,009
Loans and advances	3.78%	529,742	31,646	78,649	492,099	94,714	-	1,226,850
Investment securities	4.40%	47,540	-	55,408	616,970	297,983	49,399	1,067,300
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	93,371	93,371
Property and equipment	-	-	-	-	-	-	13,051	13,051
Total assets		870,652	177,467	273,712	1,109,069	392,697	277,946	3,101,543
Liabilities and equity								
Due to banks and other financial institutions	1.65%	329,922	-	-	-	-	54,085	384,007
Borrowings under repurchase agreements	1.81%	67,829	-	-	-	-	-	67,829
Customer deposits	1.11%	695,232	167,185	269,366	48,400	-	985,031	2,165,214
Interest payable and other liabilities	-	-	-	-	-	-	36,579	36,579
Equity	-	-	-	-	-	-	447,914	447,914
Total liabilities and equity		1,092,983	167,185	269,366	48,400	-	1,523,609	3,101,543
On-balance sheet Interest rate sensitivity gap		(222,331)	10,282	4,346	1,060,669	392,697	(1,245,663)	-
Off-balance sheet Interest rate gap		651,275	-	-	(378,111)	(273,164)	-	-
Cumulative interest rate sensitivity gap		428,944	439,226	443,572	1,126,130	1,245,663	-	-

Amounts in BD '000 As at 31 December 2016	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets								
Cash and balances at central banks	-	-	-	-	-		102,990	102,990
Treasury bills	*2.66%*	162,816	140,583	183,403	-	-	-	486,802
Placements with banks and other financial institutions	*0.93%*	133,132	15,416	-	-	-	12,352	160,900
Trading securities	-	349	-	-	-	-	-	349
Loans and advances	*3.47%*	545,398	36,882	47,305	321,624	80,717	-	1,031,926
Investment securities	*4.07%*	19,740	-	134,781	606,643	281,879	49,880	1,092,923
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	88,790	88,790
Property and equipment	-	-	-	-	-	-	12,421	12,421
Total assets		861,435	192,881	365,489	928,267	362,596	266,433	2,977,101
Liabilities and equity								
Due to banks and other financial institutions	*1.29%*	299,664	-	-	-	-	74,150	373,814
Borrowings under repurchase agreements	*1.45%*	64,284	-	-	-	-	-	64,284
Customer deposits	*0.92%*	985,054	180,288	51,430	618	-	870,958	2,088,348
Interest payable and other liabilities	-	-	-	-	-	-	35,959	35,959
Equity	-	-	-	-	-	-	414,696	414,696
Total liabilities and equity		1,349,002	180,288	51,430	618	-	1,395,763	2,977,101
On-balance sheet Interest rate sensitivity gap		(487,567)	12,593	314,059	927,649	362,596	(1,129,330)	-
Off-balance sheet Interest rate gap		644,689	-	-	(365,734)	(278,955)	-	-
Cumulative interest rate sensitivity gap		157,122	169,715	483,774	1,045,689	1,129,330	-	-

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33. MARKET RISK

a) The Bank uses the Standardised Method for allocating market risk capital.

The following table shows the capital charges as at 31 December:

Risk Type Amounts in BD '000	**2017**	2016
Interest Rate Risk	**1,259**	1,077
Equities Risk	**-**	56
Foreign Exchange Risk	**31**	18
Total minimum capital required for market risk	**1,290**	1,151
Multiplier	**12.5**	12.5
Market Risk weighted exposure under the Standardized Method	**16,125**	14,388

b) The principal risk to which Bank's portfolio that is exposed is the risk of loss from fluctuations in future cash flows of financial instruments because of changes in market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	2017		2016	
Amounts in BD '000	**200 bps parallel increase**	**200 bps parallel decrease**	200 bps parallel increase	200 bps parallel decrease
At 31 December	**9,950**	**(9,950)**	10,961	(10,961)
Average for the year	**10,494**	**(10,494)**	9,836	(9,836)
Minimum for the year	**8,618**	**(8,618)**	4,539	(4,539)
Maximum for the year	**12,161**	**(12,161)**	12,110	(12,110)

c) The Bank holds investments in quoted equities as part of the available-for-sale investments. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Bank manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. The use of derivatives to manage interest rate risk is described in note 17.

34. SEGMENT INFORMATION

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Personal Banking, Bahrain Business Banking and Treasury & International Banking. These SBUs are the basis on which the Bank reports its operating segment information.

The Personal Banking and Bahrain Business Banking SBUs provide various banking products and services to the Bank's customers in Bahrain . The SBUs are differentiated based on their respective customer segments. Personal Banking caters to individuals. Bahrain Business Banking caters to governments, corporates and commercial enterprises.

The Treasury & International Banking SBU has the overall responsibility of managing the Bank's liquidity, interest rate, foreign exchange and market risk and provide various banking products and services to Bank's customers outside Bahrain.

Financial information about the operating segments is presented in the following table:

Amounts in BD '000	**Personal Banking**		**Bahrain Business Banking**		**Treasury & International Banking**		**Total**	
For the year ended 31 December	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Interest income	**20,251**	20,471	**15,773**	12,073	**66,069**	55,593	**102,093**	88,137
Interest expense	**(9,925)**	(6,190)	**(11,439)**	(12,226)	**(7,661)**	(3,731)	**(29,025)**	(22,147)
Inter-segment interest income/(expense)	**14,345**	9,613	**11,728**	11,787	**(26,073)**	(21,400)	**-**	-
Net interest income	**24,671**	23,894	**16,062**	11,634	**32,335**	30,462	**73,068**	65,990
Other income	**9,641**	8,846	**3,814**	2,784	**17,943**	19,253	**31,398**	30,883
Operating income	**34,312**	32,740	**19,876**	14,418	**50,278**	49,715	**104,466**	96,873
Result	**19,878**	17,495	**1,910**	5,775	**41,944**	37,537	**63,732**	60,807
Unallocated corporate expenses							**(2,719)**	(2,572)
Profit for the year							**61,013**	58,235
<u>Other information</u>								
Segment assets	**447,374**	430,080	**588,602**	480,777	**2,065,567**	2,066,244	**3,101,543**	2,977,101
Segment liabilities & Equity	**1,181,144**	975,923	**1,077,621**	1,105,549	**842,778**	895,629	**3,101,543**	2,977,101
Depreciation for the year	**508**	529	**325**	325	**369**	252	**1,202**	1,106
Provision for impaired assets	**1,023**	1,713	**9,287**	(155)	**161**	2,982	**10,471**	4,540

During 2017, the total capital expenditure amounted to BD 2.39 million (US$ 6.36 million) [2016: BD 1.56 million (US$ 4.15 million)].

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

34. CONCENTRATION OF CREDIT RISK (CONTINUED)

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Bank's capital has been distributed among the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are automatically transferred by all the other business segments to Treasury and International Banking. The interest rate for calculating interest of such transfers is set once every three months separately for local and foreign currency and is based on the weighted average of market rates for various maturities for each currency.

While the Bank conducts its banking business primarily through its Strategic Business Units, it operates from various geographical locations:

(i) Domestic operations through its network of branches in Kingdom of Bahrain and

(ii) Overseas operations through its branches in the United Arab Emirates and Saudi Arabia.

Financial information about geographical locations is presented in the following table:

Amounts in BD '000	Domestic		Overseas		Total	
For the year ended 31 December	**2017**	2016	**2017**	2016	**2017**	2016
Operating income	**101,641**	94,339	**2,826**	2,534	**104,467**	96,873
Profit for the year	**60,310**	58,596	**703**	(361)	**61,013**	58,235
At 31 December						
Segment assets	**3,020,115**	2,912,887	**81,428**	64,214	**3,101,543**	2,977,101
Segment liabilities & equity	**3,020,115**	2,912,887	**81,428**	64,214	**3,101,543**	2,977,101

35. MATURITY PROFILE AND LIQUIDITY RISK

a) MATURITY PROFILE

The table below shows the maturity profile of total assets and liabilities based on contractual terms.

Amounts in BD '000 As at 31 December 2017	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**5 to 10 years**	**10 to 20 years**	**Over 20 years**	**Total**
Assets									
Cash and balances at central banks	**107,039**	-	-	-	-	-	-	-	**107,039**
Treasury bills	**134,447**	**145,821**	**139,655**	-	-	-	-	-	**419,923**
Placements with banks and other financial institutions	**174,009**	-	-	-	-	-	-	-	**174,009**
Loans and advances	**351,694**	**75,168**	**110,935**	**285,549**	**273,759**	**99,549**	**28,642**	**1,554**	**1,226,850**
Investment securities	**39,770**	**1,814**	**55,408**	**300,460**	**322,454**	**252,963**	**13,207**	**81,224**	**1,067,300**
Investment in associates, Interest receivable, other assets and property & equipment	**4,183**	**150**	**555**	**7,804**	**5,889**	**4,967**	**228**	**82,646**	**106,422**
Total assets	**811,142**	**222,953**	**306,553**	**593,813**	**602,102**	**357,479**	**42,077**	**165,424**	**3,101,543**
Liabilities and equity									
Due to banks and other financial institutions	**384,007**	-	-	-	-	-	-	-	**384,007**
Borrowings under repurchase agreements	**67,829**	-	-	-	-	-	-	-	**67,829**
Customer deposits	**1,680,230**	**167,191**	**269,366**	**48,427**	-	-	-	-	**2,165,214**
Interest payable & other liabilities	**20,521**	**13,825**	**671**	**1,562**	-	-	-	-	**36,579**
Equity	-	-	-	-	-	-	-	**447,914**	**447,914**
Total liabilities and equity	**2,152,587**	**181,016**	**270,037**	**49,989**	-	-	-	**447,914**	**3,101,543**

Amounts in BD '000 As at 31 December 2016	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	102,990	-	-	-	-	-	-	-	102,990
Treasury bills	162,816	140,583	183,403	-	-	-	-	-	486,802
Placements with banks and other financial institutions	145,484	15,416	-	-	-	-	-	-	160,900
Trading securities	349	-	-	-	-	-	-	-	349
Loans and advances	344,888	66,656	55,539	302,899	158,793	85,451	16,760	940	1,031,926
Investment securities	10,669	1,820	134,781	283,369	330,507	251,126	18	80,633	1,092,923
Investment in associates, Interest receivable, other assets and property & equipment	3,343	58	1,988	6,289	5,073	5,668	639	78,153	101,211
Total assets	770,539	224,533	375,711	592,557	494,373	342,245	17,417	159,726	2,977,101
Liabilities and equity									
Due to banks and other financial institutions	373,814	-	-	-	-	-	-	-	373,814
Borrowings under repurchase agreements	64,284	-	-	-	-	-	-	-	64,284
Customer deposits	1,855,814	180,462	51,430	642	-	-	-	-	2,088,348
Interest payable & other liabilities	23,925	736	560	10,738	-	-	-	-	35,959
Equity	28,988	-	-	-	-	-	-	385,708	414,696
Total liabilities and equity	2,346,825	181,198	51,990	11,380	-	-	-	385,708	2,977,101

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

35. MATURITY PROFILE AND LIQUIDITY RISK (CONTINUED)

b) LIQUIDITY RISK

The table below shows the undiscounted cash flows of the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Bank's expected cash flows on these instruments vary significantly from this analysis; for example customers are expected to maintain stable or increased balances in demand deposits and not all undrawn loan commitments are expected to be drawn down immediately.

For derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) the gross nominal undiscounted cash inflow/(outflow) are considered while in the case of derivatives that are net settled the net amounts have been considered.

Amounts in BD '000 As 31 December 2017	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to banks and other financial institutions	**384,007**	**385,633**	**385,633**	**-**	**-**	**-**	**-**
Borrowings under repurchase agreements	**67,829**	**68,032**	**68,032**	**-**	**-**	**-**	**-**
Customers' deposits	**2,165,214**	**2,174,728**	**1,682,429**	**162,562**	**276,193**	**53,544**	**-**
Total non derivative liabilities	**2,617,050**	**2,628,393**	**2,136,094**	**162,562**	**276,193**	**53,544**	**-**
Derivative liabilities							
Trading: outflow	**-**	**782,276**	**533,812**	**183,100**	**65,292**	**73**	**-**
Trading: inflow	**900**	**783,422**	**534,297**	**183,276**	**65,775**	**74**	**-**
Total derivative liabilities	**900**	**1,565,698**	**1,068,109**	**366,376**	**131,067**	**147**	**-**
Banking commitments	**-**	**-**	**(82,883)**		**-**	**-**	**82,883**
Financial guarantees	**-**	**(47,585)**	**(6,948)**	**(250)**	**(522)**	**(39,865)**	**-**

Amounts in BD '000 As 31 December 2016	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to banks and other financial institutions	373,814	374,621	374,621	-	-	-	-
Borrowings under repurchase agreements	64,284	64,480	64,480	-	-	-	-
Customers' deposits	2,088,348	2,099,112	1,864,797	180,006	53,651	658	-
Total non derivative liabilities	2,526,446	2,538,213	2,303,898	180,006	53,651	658	-
Derivative liabilities							
Trading: outflow	-	(570,781)	(177,580)	(288,673)	(104,528)	-	-
Trading: inflow	1,576	572,806	178,135	289,196	105,475		
Total derivative liabilities	1,576	2,025	555	523	947	-	-
Banking commitments	-	-	(58,195)	-	-	-	58,195
Financial guarantees	-	(46,404)	(6,089)	(79)	(361)	(39,875)	-

36. RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognized as an expense in the income statement. The Bank's contribution for 2017 amounted to BD 0.94 million (US$ 2.51 million) [2016: BD 0.87 million (US$ 2.31 million)].

Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws. The movement in the provision for leaving indemnities during the year is as follows:

Provision for leaving indemnities	**2017**		2016	
Movements during the year	**BD'000**	**US$'000**	BD'000	US$'000
At 1 January	**3,099**	**8,376**	4,994	13,497
Charge for the year	**588**	**1,564**	2,797	7,439
Paid during the year	**(1,425)**	**(3,790)**	(4,692)	(12,479)
At 31 December	**2,262**	**6,150**	3,099	8,457

The Bank has a voluntary Staff Savings Scheme for Bahraini employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the Scheme. The Scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the Scheme for 2017 amounted to BD 0.83 million (US$ 2.22 million) [2016: BD 0.87 million (US$ 2.31 million)]. As at 31 December 2017, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the Scheme, the net balance of the Scheme, amounted to BD 9.96 million (US$ 26.49 million) [31 December 2016: BD 12.03 million (US$ 31.99 million)].

NOTES TO THE FINANCIAL STATEMENTS
For the Year ended 31 December 2017

37. LEGAL CLAIMS
As at 31 December 2017, legal suits pending against the Bank aggregated to BD 1.23 million (US$ 3.26 million) [31 December 2016: BD 0.53 million (US$ 1.41 million)]. Based on the opinion of the Bank's legal advisors about final judgment on these suits, adequate provision as assessed by management is maintained.

38. EARNINGS AND DIVIDEND PER SHARE

	2017		2016	
	BD millions	**US$ millions**	BD millions	US$ millions
Profit for the year	**61.01**	**162.25**	58.24	146.97
Dividend proposed at 25% (2016: 25%)	**31.89**	**84.81**	28.99	77.10
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January	**1,159.5**	**1,159.5**	1,159.5	1,159.5
Effect of bonus shares issued during 2017	**116.0**	**116.0**	116.0	116.0
Less unallocated employee shares	**(15.7)**	**(15.7)**	(16.4)	(16.4)
Weighted average number of ordinary shares (millions) as at 31 December	**1,259.8**	**1,259.8**	1,259	1,259
Earnings per share	**48.4 fils**	**13 cents**	46.3 fils	12 cents
Dividend per share	**25 fils**	**7 cents**	23 fils	6 cents

Diluted earnings per share is same as basic earnings per share as the Bank does not have any potential dilutive instruments in issue.

39. ACCOUNTING CLASSIFICATION
a) The following table provides disclosure of the accounting classification for assets and liabilities:

Amounts in BD '000 **As 31 December 2017**	**Trading**	**Designated at fair value through profit or loss**	**Loans and receivables**	**Available for sale**	**Others at amortised cost**	**Total carrying amount**
Cash and balances at central banks	-	-	**107,039**	-	-	**107,039**
Treasury bills	-	-	**419,923**	-	-	**419,923**
Placements with banks and other financial institutions	-	-	**174,009**	-	-	**174,009**
Loans and advances	-	-	**1,226,850**	-	-	**1,226,850**
Investment securities	-	**249**	-	**1,067,051**	-	**1,067,300**
Interest receivable & other assets	-	-	**41,794**	-	-	**41,794**
Total assets	-	**249**	**1,969,615**	**1,067,051**	-	**3,036,915**
Due to banks and other financial institutions	-	-	-	-	**384,007**	**384,007**
Borrowings under repurchase agreements	-	-	-	-	**67,829**	**67,829**
Customer deposits	-	-	-	-	**2,165,214**	**2,165,214**
Interest payable & other liabilities	-	-	-	-	**27,224**	**27,224**
Total liabilities	-	-	-	-	**2,644,274**	**2,644,274**

Amounts in BD '000 As 31 December 2016	Trading	Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
Cash and balances at central banks	-	-	102,990	-	-	102,990
Treasury bills	-	-	486,802	-	-	486,802
Placements with banks and other financial institutions	-	-	160,900	-	-	160,900
Trading securities	349	-	-	-	-	349
Loans and advances	-	-	1,031,926	-	-	1,031,926
Investment securities	-	303	-	1,092,620	-	1,092,923
Interest receivable & other assets	-	-	38,714	-	-	38,714
Total assets	349	303	1,821,332	1,092,620	-	2,914,604
Due to banks and other financial institutions	-	-	-	-	373,814	373,814
Borrowings under repurchase agreements	-	-	-	-	64,284	64,284
Customer deposits	-	-	-	-	2,088,348	2,088,348
Interest payable & other liabilities	-	-	-	-	24,893	24,893
Total liabilities	-	-	-	-	2,551,339	2,551,339

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2017

39. ACCOUNTING CLASSIFICATION (CONTINUED)

b) Fair value hierarchy

The Bank measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

"Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on" observable data and the unobservable inputs have a significant effect on the instrument's valuation.

All financial instruments other than those disclosed in table below are classified as level 2.

(i) Loans and advances: The fair value approximates its carrying value since the majority of loans are floating rate loans which have been disbursed at market rates, and adequate provisions have been taken for those loans with doubt as to collectability.

(ii) Customers' deposits: The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is deemed to equal the amount repayable on demand, which is represented by the carrying value of the deposits. For interest bearing fixed maturity deposits, the Bank estimates that fair value will approximate their book value as the majority of deposits are of short term nature and as all deposits are at market rates.

(iii) Other financial assets and liabilities: The fair value is considered to approximate their book values due to their short term nature and negligible probability of credit losses.

The table below analyses financial assets and liabilities carried at fair value, by valuation method.

Amount in BD 000's	**2017**				2016			
At 31 December	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets held for trading	-	-	-	-	349	-	-	349
Financial assets designated at fair value through profit or loss:								
Managed Funds	-	249	-	249	-	303	-	303
Available for sale financial assets:								
Debt securities	332,463	685,445	-	1,017,908	320,614	722,429	-	1,043,043
Equity securities	38,274	-	10,869	49,143	39,245	-	10,332	49,577
Derivative financial assets	-	4,179	-	4,179	-	3,455	-	3,455
Total	370,737	689,873	10,869	1,071,479	360,208	726,187	10,332	1,096,727
Derivative financial liabilities	-	1,115	-	1,115	-	719	-	719

The following table analyses the movement in Level 3 financial assets during the year. There are no transfers between level 1, level 2 and level 3 of the fair value hierarchy.

	Available for sale financial assets	
Amount in BD 000's	**2017**	2016
At 1 January	10,332	12,198
Total gains/(losses):		
in income statement	-	(41)
in other comprehensive income	537	(467)
Purchases	-	-
Settlements	-	(1,358)
Transfers into /(out) of Level 3	-	-
At 31 December	10,869	10,332
Total gain /(loss) for the year included in income statement for assets/liabilities held at 31 December	-	(41)

Level 3 comprises unquoted equity investments classified as available for sale which are measured at their net asset values based on the latest financial statements issued by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets isassessed as not significant to the other comprehensive income and total equity.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2017

40. AVERAGE BALANCES

The following are average daily balances for full year:

	2017		2016	
	BD'000	US$'000	BD'000	US$'000
Total assets	3,007,916	7,999,777	2,940,359	7,820,104
Total liabilities	2,581,969	6,866,939	2,579,681	6,860,854
Total equity	425,947	1,132,838	360,678	959,250
Contingent liabilities and undrawn loan commitments	243,926	648,739	210,614	560,144

41. CAPITAL ADEQUACY

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain,

United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

The details of the Bank's capital adequacy calculations are shown below:

	2017		2016	
Based on year end balances	BD '000	US$ '000	BD '000	US$ '000
Common equity (CET1)	434,077	1,154,460	402,087	1,069,380
Additional tier 1	-	-	-	-
Total common equity tier 1 (CET)	434,077	1,154,460	402,087	1,069,380
Tier 2	12,466	33,154	12,381	32,928
Total capital base	446,543	1,187,614	414,468	1,102,308
Risk weighted exposure:				
Credit risk	1,039,852	2,765,564	990,494	2,634,293
Market risk	16,125	42,886	14,388	38,266
Operational risk	174,863	465,061	166,100	441,755
Total risk weighted exposure	1,230,840	3,273,511	1,170,982	3,114,314
CET 1 ratio	35.3%		34.3%	
Total capital adequacy ratio	36.3%		35.4%	

	2017		2016	
Based on average balances	BD '000	US$ '000	BD '000	US$ '000
Common equity (CET1)	413,643	1,100,114	351,329	934,386
Additional tier 1	-	-	-	-
Total common equity tier 1 (CET)	413,643	1,100,114	351,329	934,386
Tier 2	12,120	32,234	12,461	33,141
Total capital base	425,763	1,132,348	363,790	967,527
Risk weighted exposure:				
Credit risk	983,275	2,615,093	1,008,990	2,683,484
Market risk	25,844	68,734	18,375	48,870
Operational risk	168,291	447,582	161,779	430,263
Total risk weighted exposure	1,177,410	3,131,409	1,189,144	3,162,617
CET 1 ratio	35.1%		29.5%	
Total capital adequacy ratio	36.2%		30.6%	

42. DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

43. COMPARATIVES

The corresponding figures have been regrouped where necessary to conform with the current year's presentation.

The regrouping did not affect previously reported profit for the year or total equity of the Bank.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2016

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), CBB Rule Book, Volume I for Conventional banks. These disclosures should be read in conjunction with the Notes, in particular the Significant Accounting Policies and Financial Risk Management, in the Bank's Financial Statements for the year ended 31 December 2017.

These disclosures have been reviewed by the Bank's external auditors KPMG based upon agreed-upon procedures as required under Para PD-A.2.4 of the PD Module.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

EXECUTIVE SUMMARY
The Central Bank of Bahrain's (CBB) Basel 3 rules outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2015.

NBB has adopted the Standardized Approach for Credit Risk, Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement. This report consists of the Basel Committee's Pillar 3 disclosures and other disclosure requirements as stipulated by the CBB. The report contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on capital adequacy.

As at 31 December 2017, the Bank's total risk weighted assets amounted to BD 1,230.8 million; Common Equity Tier 1 (CET1) and Total Regulatory Capital amounted to BD 434.1 million and BD 446.5 million respectively. Accordingly, CET 1 Capital Adequacy Ratio and Total Capital Adequacy Ratio were 35.3 percent and 36.3 percent respectively. These ratios exceed the minimum capital requirements under the CBB's Basel 3 framework.

The Bank views these disclosures as an important means of increased transparency and accordingly has provided extensive disclosures in this report that is appropriate and relevant to the Bank's stakeholders and market participants.

CBB CAPITAL ADEQUACY RULES:
The CBB Capital Adequacy Rules provides guidance on the risk measurements for the calculation of capital requirements. Conventional bank licenses are required to meet the following minimum CAR requirements:

		Components of consolidated CARs		
	Optional	**Minimum Ratio Required**	**Capital conservation buffer (CCB)**	**CAR including CCB**
Common Equity Tier 1 (CET1)		**6.5%**		**9.0%**
Additional Tier 1 (AT1)	1.5%			
Tier 1 (T1)		**8.0%**	2.5% comprising of CET1	**10.5%**
Tier 2 (T2)	2.0%			
Total Capital		**10.0%**		**12.5%**

The regulatory adjustments (i.e. deductions) including amounts above the aggregate 15% limit for significant investments in financial institutions, mortgage service rights, and deferred tax assets from temporary differences, are fully deducted from CET1 by 1 January 2019. This regulatory adjustments being at 20% of the required adjustments to CET 1 on 1 January 2015, 40% on 1 January 2016, 60% on 1 January 2017, 80% on 1 January 2018, and reach 100% on 1 January 2019. During the transition period, the remainder not deducted from CET1, which continues to be risk weighted as per the Rulebook.

Banks are required to maintain a Capital Conservation Buffer (CCB) of 2.5%, comprising of CET1 above the regulatory minimum Total Capital ratio of 10.0%. Capital distribution constraints will be imposed when the CCB fall below 2.5%. The constraints imposed only relate to distribution, and not the operations of the licensed banks.

The Basel III framework consists of three mutually reinforcing pillars:

i) Pillar 1: Minimum capital requirements for credit risk, market risk and operational risk.
ii) Pillar 2: Supervisory review of capital adequacy including Internal Capital Adequacy Assessment process (ICAAP)
iii) Pillar 3: Market discipline including rules for disclosure of risk management and capital adequacy.

SCOPE OF APPLICATION
The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, the United Arab Emirates and Saudi Arabia. The Bank's capital adequacy requirements are computed on a consolidated basis. The Bank does not have any subsidiaries.

RISK AND CAPITAL MANAGEMENT
The Bank is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- interest rate risk
- operational risk

Risk management framework
The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group (RG) of the Bank provides the necessary support to senior management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer and the Audit Committee of the Board. The Group comprises of a Credit Risk department (responsible for independent pre-approval analysis of credit / investment proposals as well as risk policy and procedures management), Credit Administration department (responsible for post approval implementation and follow up), Legal department (responsible for management of legal risk), Market and Operational Risk Management department (responsible for market risk and operational risk), Information Security Risk department (responsible for information and cyber security).

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit department, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

Credit Risk
Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank acknowledges that credit risk is an inherent and substantial cost that needs to be set against income. Risk is just one aspect of the triangle for any economic capital system and must be seen in conjunction with capital requirements and returns. The Bank evaluates risk in terms of the impact on income and asset values and the evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at the Bank has always been conservative and proactive with the objective of achieving a balanced relation between risk appetite and expected returns.

The Bank monitors and manages concentration risk by setting limits on exposures to countries, sectors, products and counterparty groups. Stringent criteria is used by Credit Risk Department in setting such limits and these have ensured that the impact of any adverse developments on the Bank's income stream and capital strength is limited. Prior to launch of any new asset product, based on a comprehensive analysis, product specific transaction approval criteria are set. Similarly, prudent norms have been implemented to govern the Bank's investment activities, which specify to the Bank's Treasury department the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features, etc.

The Bank has well laid out procedures, to not only appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available), track record, product type, facility tenor, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe by the Business Units and Credit Risk Department ensures timely identification of any events affecting the risk profile.

The Business Units of the Bank are responsible for business generation and initial vetting of proposals to make sure that the Bank's risk acceptance criteria are met. Credit facilities in excess of BD 250,000 or falling outside pre-approved product criteria are independently reviewed by Credit Risk Department, which analyses the proposal and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 16-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities, which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary, etc are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

For purposes of comparison, the Bank's internal ratings are mapped to Moody's and Standard & Poor (S&P) ratings as under:

Bank's Internal Ratings Scale	Equivalent to S&P and Moody's ratings
1	AAA/Aaa
2	AA+/Aa1
3	AA/Aa2
4+	AA-/Aa3
4	A+/A1
4-	A/A2
5+	A-/A3
5	BBB+/Baa1
5-	BBB/Baa2
6+	BBB-/Baa3
6	BB+/Ba1
6-	BB/Ba2 to BB-/Ba3
7	B+/B1 to B-/B3
8 - 10	CCC+/Caa1 to D/C

However, the above mapping is not intended to reflect a direct relationship between the Bank's internal ratings and the corresponding rating of the external agencies since the basis and methodology differ.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2017

Liquidity Risk

Liquidity Risk is the potential inability of a bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liability management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury Department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times.

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The marketing strategy of the Bank has ensured a balanced mix of demand and time deposits. Stability of the deposit base thus minimises the Bank's dependence on volatile short-term borrowings. Further, investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision making purposes.

Interest Rate Risk

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1 percent change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions.

Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. In order to manage and mitigate such risks, the Bank ensures that proper systems and resources (financial and personnel) are available to support the Bank's operations. Proper segregation of duties and other controls (including reconciliation, monitoring and reporting) are implemented to support the various operations, especially credit, treasury and electronic banking activities.

Detailed operational guidelines are spelt out in the Operations Manual to specify the steps to be followed in handling any transaction. These steps are designed to mitigate the risks arising from errors, omissions and oversights in dealing with customer instructions and transaction processing. The overriding principles in drawing up operational processes are that transactions must be scrutinized by a "checker" independent from the "originator" prior to booking and that there should be a clear audit trail for post facto scrutiny. The Bank's Fraud Manual and the Code of Conduct provide necessary guidance to mitigate risks and ensure that adequate controls are in place for detecting suspicious transactions. Any changes to operational procedures need to be processed through the Internal Audit Department, who ensure that satisfactory control mechanisms are in place in all procedures.

Specific limits are set up to mitigate and monitor the Bank's exposure including limits on maximum branch cash limit, maximum teller limit, maximum payment authorization limit, signature authorities, etc. Documented policies and procedures, approval and authorization process for transactions, documented authority letters, process of verification of transaction details and activities, reconciliation of key activities, dual custody of financial assets like demand drafts, cheques etc. and insurance coverage of various operational risks are the key pillars of the operational risk management process.

The Bank has an Operational Risk Management Department within the RG to independently monitor and manage all aspects of operational risk on a bank wide basis. The Bank also has a dedicated Operational Risk Management Committee (Chaired by Chief Risk Officer) to supervise, monitor and review operational risk issues and ensure that adequate mitigants are developed and implemented for all operational risk issues.

The scope of the Internal Audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are reviewed by the Internal Audit department and assessed for operational risks prior to their implementation. The Internal Audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a Business Continuity Plan (BCP) to ensure that the critical activities are supported in case of an emergency. The BCP is approved by the Board of Directors.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

Risk Monitoring and Reporting
Systems and processes are in place to regularly monitor and report risk exposures to the Board of Directors and senior management to effectively monitor and manage the risk profile of the Bank.

The Board of Directors are provided with quarterly risk reports covering credit, market, liquidity, operational, concentration and other risks.

Senior management is provided with a daily report on market risk and monthly reports on other risks. Reports on capital adequacy and internal capital adequacy assessment are provided to senior management on a monthly basis. In addition, stress testing on capital adequacy is undertaken once a year or more frequently in times of need and communicated to Board of Directors and senior management for appropriate decisions.

Capital Management
The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also considered and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalised status under regulatory requirements. The Bank has a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, interest rate risk in the banking book and other miscellaneous risks. The ICAAP also keeps in perspective the Bank's strategic plans, credit growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Bank's capital adequacy to determine capital requirement and planning to ensure that the Bank is adequately capitalised in line with the overall risk profile.

The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

Prior approval of the Central Bank of Bahrain is obtained by the Bank before submitting any proposal for distribution of profits for shareholders approval.

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

Capital structure, minimum capital and capital adequacy
The Bank's paid up capital consists only of ordinary shares, which have proportionate voting rights. The Bank does not have any other type of capital instruments.

As at 31-12-2017	**In BD'000s**
Common Equity Tier 1 (CET1)	
Issued and full paid ordinary shares	127,545
Shares under employee share incentive scheme	(1,672)
Statutory reserve	63,772
Share Premium	4,018
General & other reserves	48,395
Retained earnings	118,758
Current year profits	61,013
Unrealised gains and losses on available for sale financial instruments	26,411
Deduction from CET 1 (significant investments in common stock of financial entities)	(14,163)
Total Common Equity Tier 1 (CET1) (A)	**434,077**
Additional Tier 1 (AT1)	-
Total Tier 1 (T1)	**434,077**
Tier 2 Capital (T2)	
General loan loss provision subject to 1.25% of credit risk weighted assets	12,466
Total Tier 2 (T2) (B)	**12,466**
Total Capital Base (Tier 1 + Tier 2) (A+B)	**446,543**

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

Capital structure, minimum capital and capital adequacy
As at 31-12-2017

	Credit Exposure before credit risk mitigant	Eligible credit Risk mitigant	Credit Exposure after credit risk mitigant	Risk weighted exposure	Capital Requirement at 12.5%
In BD'000s					
Sovereigns	1,628,188	-	1,628,188	-	-
PSE	132	-	132	-	-
Banks	382,005	112,435	269,570	157,270	19,659
Corporates	689,128	27,590	661,538	250,232	31,279
Regulatory retail	384,810	743	384,067	288,050	36,006
Residential mortgages	24,495	-	24,495	18,371	2,296
Past due exposures	57,497	-	57,497	62,502	7,813
Investments in equities/funds	86,895	-	86,895	165,693	20,712
Securitisation exposures	9	-	9	5	1
Others assets	123,648	12,347	111,301	97,729	12,216
Total Credit Risk Exposure	**3,376,807**	**153,115**	**3,223,692**	**1,039,852**	**129,983**
Market Risk				**16,125**	**2,016**
Operational Risk				**174,863**	**21,858**
Total Risk Weighted Assets (C)				**1,230,840**	**153,857**
Capital Adequacy Ratio (B)/(C)				**36.28%**	
CET1 Capital Adequacy Ratio (A)/(C)				**35.27%**	

CREDIT RISK
The Bank has a diversified on and off balance sheet credit portfolio, which are divided into counter party exposure classes in line with the CBB's Basel 3 capital adequacy framework for the Standardized approach for credit risk. A high-level description of the counter party exposure classes and the risk weights used to derive the Risk Weighted Assets are as follows:

Sovereigns Portfolio
The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are 0 percent for exposures in the relevant domestic currency of the sovereign, or for any exposures to GCC governments. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereign portfolio and treated as exposures with a 0 percent risk weighting.

PSE Portfolio
Public sector entities (PSEs) are risk weighted according to their external ratings except for Bahrain PSEs and domestic currency claims on other PSEs that are assigned a 0 percent risk weight by their respective country regulator, are consequentially allowed a 0 percent risk weight by CBB for computation purposes.

Banks Portfolio
Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures to banks in their country of incorporation. Short-term exposures are defined as exposures with an original tenor of three months or less and denominated and funded in the respective domestic currency. The preferential risk weight for short-term claims is allowed on exposures in Bahraini Dinar/US Dollar in the case of Bahraini incorporated banks.

Corporates Portfolio
Claims on corporates are risk weighted based on their external credit ratings. A 100 percent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a 0 percent risk weight.

Regulatory Retail Portfolio
Claims on individuals or to a small business with an annual turnover below BD 2mn; the maximum aggregated retail exposure to one counterpart must not exceed an absolute limit of BD 250,000. These claims are risk weighted at 75%.

Residential mortgages
Lending fully secured by first mortgages on residential property that is or will be occupied by the borrower or that is leased. These claims are risk weighte at 75%.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

Equities / Funds Portfolio
The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale securities portfolio. The credit (specific) risk for equities in the trading book is included in market risk RWAs for regulatory capital adequacy calculation purposes.

A 100 percent risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150 percent. Investments in rated funds are risk weighted according to the external credit rating. Investments in companies engaged primarily in real estate are included in other assets and risk weighted at 200 percent. Significant investments in listed and unlisted equities of financial entities are aggregated and the excess above the 10% of CET1 is deducted from equity; the amount not deducted is risk weighted at 250%.

In addition to the standard portfolios, other exposures are risk weighted as under:

Past due exposures
All past due loan exposures, irrespective of the categorisation of the exposure are classified separately under the past due exposures asset class. A risk weighting of either 100 percent or 150 percent is applied depending on the level of specific provision maintained against the exposure.

Other assets and holdings of securitisation tranches
Other assets are risk weighted at 100 percent. Securitisation tranches are risk weighted (ranging from 20 percent to 350 percent) based on their external credit ratings and resecuritisation tranches are risk weighted (ranging from 40 percent to 650 percent) based on their external credit ratings. Exposures to securitisation & resecuritisation tranches that are rated below BB- or are unrated are deducted from regulatory capital rather than subject to a risk weight. Investments in real estate and also in bonds, funds and equities of companies engaged primarily in real estate are included in other assets and risk weighted at 200 percent.

External Credit Assessment Institutions (ECAI)
The Bank uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel 3 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes, as per CBB guidelines.

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

As at 31-12-2017 In BD'000s	As at 31-12-2017	2017 Average
Cash and balances at central banks	107,039	107,615
Treasury bills	419,923	462,346
Placements with banks and other financial institutions	174,009	127,426
Loans and advances	1,239,316	1,134,831
Investment securities	1,067,300	1,108,200
Other assets	106,422	99,709
Total assets	**3,114,009**	**3,040,127**
Non-derivative banking commitments and contingent liabilities (notional)	290,352	342,788
Derivatives (notional)	1,435,602	1,326,899

INDUSTRY OR COUNTERPARTY EXPOSURE

As at 31-12-2017 In BD'000s	Govt	Mfg / Trdg	Banks/ FIs	Const	Personal	Others	Total
Cash and balances at central banks	-	-	107,039	-	-	-	107,039
Treasury bills	419,923	-	-	-	-	-	419,923
Placements with banks and other financial	-	-	174,009	-	-	-	174,009
Loans and advances *	221,421	124,653	188,236	77,728	426,067	201,211	1,239,316
Investment securities	951,147	10,530	81,523	827	-	23,273	1,067,300
Investment in associates and Other assets	16,046	208	56,693	58	892	32,525	106,422
Total assets	**1,608,537**	**135,391**	**607,500**	**78,613**	**426,959**	**257,009**	**3,114,009**
Non-derivative banking commitments and contingent liabilities (notional)	70,165	66,179	89,544	35,625	1,469	27,370	**290,352**
Derivatives (notional)	-	6,998	1,427,738	-	866	-	**1,435,602**

* Gross of general provision of BD12,466.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

The above includes certain exposures to customers / counter parties, which are in excess of 15 percent of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures:

Counterparty	Counterparty Type	Total Exposure
Counterparty A	Sovereign	1,401,962
Counterparty B	Sovereign	212,997
Counterparty C	Central Bank	184,413
Counterparty D	Sovereign	96,597
Counterparty E	Bank	74,050

GEOGRAPHIC DISTRIBUTION OF EXPOSURE

In BD'000s	GCC	USA	Europe	Rest of World	Total
Cash and balances at central banks	107,039	-	-	-	107,039
Treasury bills	419,923	-	-	-	419,923
Placements with banks and other financial institutions	163,746	3,917	5,079	1,267	174,009
Loans and advances *	1,128,393	95,880	-	15,043	1,239,316
Investment securities	1,021,828	24,557	207	20,708	1,067,300
Investment in associates and Other assets	101,351	2,172	2,805	94	106,422
Total assets	**2,942,280**	**126,526**	**8,091**	**37,112**	**3,114,009**
Non-derivative banking commitments and contingent liabilities (notional)	264,149	67	22,946	3,190	**290,352**
Derivatives (notional)	683,263	226,324	517,826	8,189	**1,435,602**

* Gross of general provision of BD12,466.

RESIDUAL CONTRACTUAL MATURITY

As at 31-12-2017

In BD 000s	Upto 3 months	3 to 6 months	6 months to 1 year	1 year to 3 years	3 years to 5 years	5 years to 10 years	10 years to 20 years	Over 20 years	Total
Cash and balances at central banks	107,039	-	-	-	-	-	-	-	107,039
Treasury bills	134,447	145,821	139,655	-	-	-	-	-	419,923
Placements with banks and other financial	174,009	-	-	-	-	-	-	-	174,009
Loans and advances *	355,218	75,886	112,248	288,552	276,355	100,583	28,906	1,568	1,239,316
Investment securities	39,770	1,814	55,408	300,460	322,454	252,963	13,207	81,224	1,067,300
Investment in associates and Other	4,183	150	555	7,804	5,889	4,967	228	82,646	106,422
Total assets	**814,666**	**223,671**	**307,866**	**596,816**	**604,698**	**358,513**	**42,341**	**165,438**	**3,114,009**
Non-derivative banking commitments and contingent	87,133	23,386	23,142	31,688	42,085	82,887	32		**290,352**
Derivatives (notional)	535,202	183,276	65,775	66,019	312,166	222,555	13,010	37,600	**1,435,602**

* Gross of general provision of BD12,466.

Past due exposures

In accordance with the Bank's policy and Central Bank of Bahrain guidelines, loans on which payment of interest or repayment of principal are 90 days past due, are defined as non-performing.

The Bank has systems and procedures in place to identify past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days. The Bank applies rigorous standards for provisioning and monitoring of non-performing loans. Level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc and adequate provisions are carried to guard against inherent risks in the portfolio.

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

Impairment and uncollectability is also measured and recognized on a portfolio basis for a group of loans and advances with similar credit risk characteristics that are not individually identified as impaired, on the basis of estimates of incurred losses that are inherent but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

Ageing analysis of impaired and past due loans and advances:

As at 31-12-2017	In BD'000s
Over 3 months to 1 year	25,684
1 to 3 years	13,349
Over 3 years	48,726
Total	**87,759**

Geographical location of impaired and past due loans and advances:

12/31/17 In BD'000s	Loan Amount	Specific Impairment Provision	Collective Impairment Provision
Bahrain	87,562	30,064	9,665
Other GCC countries	197	197	1,761
Others	-	-	1,040
Total	**87,759**	**30,261**	**12,466**

Industry/sector wise breakdown of impaired and past due loans and advances:

	As of 31 December 2017			For the year ended 31 December 2017	
In BD'000s	Loan Amount	Specific Impairment Provision	Collective Impairment Provision	Specific Impairment Charge	Write Offs
Manufacturing / trading	23,280	7,266	1,417	6,415	1,318
Construction	46,742	14,023	985	2,873	
Personal	10,099	8,543	4,085	1,698	5,362
Others	7,638	429	5,979	28	10,582
Total	**87,759**	**30,261**	**12,466**	**11,014**	**17,262**

Movement in impairment provision for loans and advances:

In BD'000s	Specific Impairment Provision	Collective Impairment Provision	Total Impairment Provision
At 1 January 2017	36,509	13,036	49,545
Charge for the period	9,225	1,175	10,400
Amounts written off against provision	(17,262)	-	(17,262)
Recoveries, transfers & write backs	1,789	(1,745)	44
At 31 December 2017	**30,261**	**12,466**	**42,727**

Restructuring
During 2017, credit facilities amounting to BD 0.1 million (US$ 0.13 million) were restructured [2016: Nil]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections and amending the terms of loan covenants. Due to minor nature of concessions, there was no significant impact on the Bank's provisions on loans and advances impairment and present and future earnings.

CREDIT RISK MITIGATION
The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as under:

Adjusted exposure amount: The Bank uses the comprehensive method for eligible financial collateral such as cash and equities listed on a recognized stock exchange. The exposure amount and financial collateral, where applicable, are adjusted for market volatility through the use of supervisory haircuts (for currency mis-matches, price volatility and maturity-mismatches) that are specified by the CBB.

Substitution of counterparty: The substitution method is used for eligible guarantees (only sovereigns, banks or corporate entities with ECAI ratings higher than that of the counterparty; guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or better) whereby the rating of the counterparty is substituted with the rating of the guarantor.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

COLLATERAL AND VALUATION PRINCIPLES
The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, pledge of quoted shares, residential/commercial property mortgage, investment securities, counter-guarantees from other banks, etc. Other risk mitigants considered include salary and end of service benefits assignment for personal loans, personal guarantees of promoters etc. However, for purposes of capital adequacy computation, only eligible collateral recognized under Basel 3 is taken into consideration.

The Bank's Credit Policy defines the types of acceptable collateral and the applicable haircuts or loan-to-value ratio. The Bank has a system of independent valuation of collateral. In the case of real estate, valuation is done by independent valuer at regular intervals as stipulated in the Bank's credit policy. In respect of quoted shares and other securities, the valuation is done based on the closing price on the stock exchange. The market value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. In general, lending is based on the customer's repayment capacity and not the collateral value. However, collateral is considered as a secondary alternative to fall back on in the event of default.

Eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio are as under:

As at 31-12-2017 In BD'000s	Gross credit exposure	Off which secured by eligible Financial Collateral	Guarantees & Credit Derivatives	Credit exposure after risk mitigation
Sovereigns	1,628,188	-	-	1,628,188
PSE	132	-	-	132
Banks	382,005	112,435	-	269,570
Corporates	689,128	27,590	-	661,538
Regulatory retail	384,810	743	-	384,067
Residential mortgages	24,495	-	-	24,495
Past due exposures	57,497	-	-	57,497
Investments in equities/funds	86,895	-	-	86,895
Securitisation exposures	9	-	-	9
Others assets	123,648	12,347	-	111,301
Total	**3,376,807**	**153,115**	**-**	**3,223,692**

On and off-Balance Sheet netting:

The legal documents that the Bank obtains from customers include clauses that permit the Bank to offset the customer's dues to the Bank against the Bank's dues to the customer. Thus, if the same legal entity has obtained credit facilities from the Bank and also maintains credit balance with the Bank, the Bank has the legal right to set-off the credit balances against the dues. In case of certain counter party banks, the Bank has entered into specific netting agreements that provide for netting on and off-balance sheet exposures.

The amount of financial assets and financial liabilities set off under netting agreements amounted to BD 72.9 million at 31 December 2017.

MARKET RISK
The Bank uses the standardized method for allocating market risk capital. The Bank has clearly documented policies and procedures for the management and valuation of the trading portfolio. The Treasury Operations department, which is independent of the front office, is responsible for valuation which is done on a daily basis, based on quoted market prices from stock exchanges, independent third parties or amounts derived from cash flow models as appropriate.

Amounts in BD '000 Risk Type	As at 31-12-2017	Capital Charge Maximum	Minimum	Average
Interest Rate Risk	1,259	3,182	1,077	1,937
Equities Risk	-	88	-	38
Foreign Exchange Risk	31	725	17	62
Commodities Risk	-			
Options Risk	-			
Total minimum capital required for market risk	**1,290**			
Multiplier	12.5			
Market Risk weighted exposure under the Standardized Method	**16,125**			

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

OPERATIONAL RISK
Whilst the Bank recognizes that operational risks cannot be eliminated in its entirety, it constantly strives to minimise operational risks (inherent in the Bank's activities, processes and systems) by ensuring that a strong control infrastructure is in place throughout the organisation and enhanced where necessary. The various procedures and processes used to manage operational risks are regularly reviewed and updated and implemented through effective staff training, close monitoring of risk limits, segregation of duties, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, and financial management and reporting. In addition, regular internal audit and reviews, business continuity planning and arrangements for insurance cover are in place to complement the processes and procedures.

The Bank presently follows the Basic Indicator Approach for assessing the capital requirement for Operational Risk. The capital requirement of BD 21.9 million is based on the gross operating income (excluding profit/loss on Investments held under Available for Sale, Held to Maturity categories and any exceptional items of income) for the last 3 years multiplied by 12.5 (the reciprocal of the 8 percent minimum capital ratio) to arrive at the operational risk-weighted exposure.

EQUITY POSITION IN BANKING BOOK

The Bank holds certain investments in equity securities as part of its strategic holdings and others are held with the objective of capital appreciation and realizing gains on sale thereof. All equity positions in the Banking book are classified as "Available for Sale". The accounting policies for "Available for Sale" instruments are described in detail in the Financial Statements under "Significant Accounting Policies".

Details of equity investments

As at 31-12-2017 In BD 000s	Balance Sheet Value	Capital Requirement @ 12.5% of Risk Weighted Assets
Non Significant investment in the common shares		
Listed Equities	26,454	3,410
Unlisted Equities	3,147	590
Significant investment in the common shares of financial entities >10%	48,163	15,051
Total	**77,764**	**19,051**
Realised gain / (Loss) *(recorded in Income Statement during the year)*	-	
Unrealised gains and losses from fair valuing equities	23,434	
Deduction from CET 1 (Significant investments in common stock of financial entities)	14,163	

INTEREST RATE RISK IN BANKING BOOK
Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of interest bearing liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning it to benefit from near-term changes in interest rate levels.

Overall non-trading interest rate risk positions are managed by the Treasury department, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews (at least on a monthly basis) the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income stream over time.

Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1 percent change in yield. Modified Duration of the Bank's fixed income portfolio was 1.36 percent on 31 December 2017 implying that a 1 percent parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BD 3.76 million.

Deposits without a fixed maturity are considered as repayable on demand and are accordingly included in the overnight maturity bucket. The Bank usually levies a pre-payment charge for any loan or deposit, which is repaid/withdrawn before the maturity date, unless it is specifically waived. This prepayment charge is to take care of any interest rate risk that the Bank faces on account of such prepayments and accordingly, no assumptions regarding such pre-payments are factored for computation of interest rate risk in the banking book.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions. The asset and liability re-pricing profile of various asset and liability categories is set out below:

As at 31-12-2017 In BD'000s	Upto 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Rate insensitive	Total
Cash and balances at central banks	-	-	-	-	-	107,039	**107,039**
Treasury bills	134,447	145,821	139,655	-	-	-	**419,923**
Placements with banks and other financial institutions	158,923	-	-	-	-	15,086	**174,009**
Loans and advances *	529,742	31,646	78,649	492,099	94,714	-	**1,226,850**
Investment securities	47,540	-	55,408	616,970	297,983	49,399	**1,067,300**
Investment in associates and Other assets	-	-	-	-	-	106,422	**106,422**
Total assets	**870,652**	**177,467**	**273,712**	**1,109,069**	**392,697**	**277,946**	**3,101,543**
Liabilities and equity							
Due to banks and financial institutions	329,922	-	-	-	-	54,085	**384,007**
Borrowings under repurchase agreements	67,829	-	-	-	-	-	**67,829**
Customers' deposits	695,232	167,185	269,366	48,400	-	985,031	**2,165,214**
Other Liabilities	-	-	-	-	-	36,579	**36,579**
Equity	-	-	-	-	-	447,914	**447,914**
Total liabilities and equity	**1,092,983**	**167,185**	**269,366**	**48,400**	**-**	**1,523,609**	**3,101,543**
On Balance-sheet interest rate sensitivity gap	**(222,331)**	**10,282**	**4,346**	**1,060,669**	**392,697**	**(1,245,663)**	**-**
Off Balance-sheet interest rate gap	651,275	-	-	(378,111)	(273,164)	-	**-**
Cumulative Interest rate sensitivity gap	**428,944**	**439,226**	**443,572**	**1,126,130**	**1,245,663**	**-**	**-**

*Net of general provision of BD 12,466.

The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase / decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

As at 31-12-2017 In BD'000s	200 bps parallel increase	200 bps parallel decrease
As at period ended above	9,950	(9,950)
Average for the period	10,494	(10,494)
Minimum for the period	8,618	(8,618)
Maximum for the period	12,161	(12,161)

RELATED PARTY
Certain related parties (major shareholders & related entities, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business. The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to him. Balances at the reporting date in regard to related parties and transactions during the year with related parties comprised the following:

Amounts in BD '000 As at 31 December	Majority shareholder & related entities	Directors & key personal management	Associates
Loans and advances	251,295	4,230	38,941
Treasury bills, bonds and equities	1,353,797	-	51,577
Customers' deposits	229,162	30,101	5,936
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	92,395	10,659	-
For the year ended 31 December			
Loans advanced	116,096	8,479	38,800
Loans repaid	79,602	14,937	-
Net (decrease) / increase in overdrafts	28,019	(3,363)	-
Treasury bills, bonds and equities purchased	742,229	-	-
Treasury bills, bonds and equities matured/sold	838,074	-	-
Interest income	59,633	224	749
Interest expense	1,625	247	40
Share of profit of associates	-	-	3,753
Dividend Income	321	-	-
Directors Remuneration and sitting fees	168	275	-
Short term employee benefits	-	3,025	-
Post employment retirement benefits	-	248	-

During the year, impairment provision of BD 6.35 million (US$ 16.89) [2016: Nil] have been recorded against outstanding balances with related parties.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2017

The Bank qualifies as a government related entity under the definitions provided in the IAS 24 as one of its significant shareholder is government owned. In addition to government exposures reported above, in its normal course of business, the bank provides commercial lending, liquidity management and other banking services to and also avails services from various semi government organizations and government owned companies in the Kingdom of Bahrain.

SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December	BD '000
US Dollar (long position) - unhedged	65,149
UAE Dirhams (long position) - unhedged	1,398
Saudi Riyal (long position) - unhedged	637
Qatari Riyal (long position) - unhedged	6,581

The Bahraini Dinar has a fixed rate of exchange against the US Dollar.

DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

a) The following table summarizes for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value:

Amounts in BD '000 **As at 31 December**	**Contract/ Nominal Amount**	**Replacement cost**	**Fair value**
Interest rate contracts			
Interest rate swaps	651,275	2,164	2,164
Sub-total	651,275	2,164	2,164
Foreign exchange contracts			
Outright spot and forward contract	293,168	861	337
Swap agreements	490,254	1,154	572
Options	905	-	(9)
Sub-total	784,327	2,015	900
Total	1,435,602	4,179	3,064

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows:

Amounts in BD '000 **As at 31 December**	**Up to 1 year**	**More than one year**	**Total**
Intere st rate contracts			
Interest rate swaps	-	651,275	651,275
Sub-total	-	651,275	651,275
Foreign exchange contracts			
Outright spot and forward contract	219,214	73,954	293,168
Swap agreements	490,254	-	490,254
Options	905	-	905
Sub-total	710,373	73,954	784,327
Total	710,373	725,229	1,435,602

LEGAL CLAIMS

As at 31 December 2017, legal suits pending against the Bank aggregated to BD 1.23 million (US$ 3.26 million) [31 December 2016: BD 0.53 million (US$ 1.41 million)]. Based on the opinion of the Bank's legal advisors and pending final judgment on these suits, adequate provision as assessed by management is maintained.

COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

Contents

COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS
As at 31 December 2017

Step 1: Balance sheet under the regulatory scope of consolidation

This step in not applicable to the Bank since the scope of regulatory consolidation and accounting consolidation is identical.

Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 31 December 2017

BD 000's	Balance sheet as in published financial statements	Consolidated PIR data	Reference
Assets			
Cash and balances at central banks	107,039	107,039	
Placements with banks and other financial institutions	174,009	174,009	
Treasury bills	419,923	419,923	
Investment securities	1,067,300	1,067,051	
Trading portfolio assets	-	-	
Financial assets at fair value through P&L	-	249	
Investments in associates	51,577	51,577	
Total Investment	**1,118,877**	**1,118,877**	
of which:			
Significant investments in capital of financils insitutions exceeds the 10% of CET1	-	62,326	
Amount in excess of 10% of CET1 to be deducted	-	17,502	A
Amount in excess of 10% of CET1 to be deducted in year 3	-	14,163	A
Gross Loans and advances	1,239,316	1,239,316	
Less: General loan loss provision	(12,466)	-	B
Net loans and advances	1,226,850	-	
Prepayments, accrued income and other assets	41,794	41,794	
Property, plant and equipment	13,051	13,051	
Total assets	**3,101,543**	**3,114,009**	
Liabilities			
Deposits from banks and other financial institutions	384,007	384,007	
Customer accounts	2,165,214	2,165,214	
Repurchase agreements and other similar secured borrowing	67,829	67,829	
Derivative financial instruments	-	-	
Accruals, deferred income and other liabilities	36,549	36,549	
Total liabilities	**2,653,599**	**2,653,599**	
Shareholders' Equity			
Paid-in share capital	127,545	125,874	
Shares under employee share incentive scheme	(1,671)	-	
Total share capital	**125,874**	**125,874**	
of which amount eligible for CET1	-	125,874	C
of which amount eligible for AT1	-	-	
Retained earnings	179,771	179,771	D
Statutory reserve	63,772	63,772	E
General reserve	32,400	32,400	F
Share premium	4,018	4,018	G
Donations and charity reserve	15,994	15,994	H
General loan loss provision	-	12,466	
of which: amount eligible for Tier 2 capital subject to a maximum of 1.25% of credit risk weighted assets		12,466	B
of which: amount ineligible for Tier 2 capital		-	
Available for sale revaluation reserve	26,411	26,411	I
Share of Available for sale revaluation reserve relating to associates not considered for regulatory capital	(296)	(296)	
Total shareholders' equity	**447,944**	**460,410**	
Total liabilities & Shareholders' Equity	**3,101,543**	**3,114,009**	

COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

As at 31 December 2017

Step 3: Composition of Capital Common Template (transition) as at 31 December 2017

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	125,874		C
2	Retained earnings	179,771		D
3	Accumulated other comprehensive income (and other reserves)	142,595		E,F,G,H,I
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-		
6	**Common Equity Tier 1 capital before regulatory adjustments**	**448,240**		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	-		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable.	-		
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	14,163	3,339	A
20	Mortgage servicing rights (amount above 10% threshold)	-		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		
22	Amount exceeding the 15% threshold	-		
23	of which: significant investments in the common stock of financials	-		
24	of which: mortgage servicing rights	-		
25	of which: deferred tax assets arising from temporary differences	-		
26	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-		
	OF WHICH: ...	-		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	**Total regulatory adjustments to Common equity Tier 1**	**14,163**		
29	**Common Equity Tier 1 capital (CET1)**	**434,077**		

COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

As at 31 December 2017

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-		
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	Additional Tier 1 capital before regulatory adjustments	-		
	Additional Tier 1 capital: regulatory adjustments	**-**		
37	Investments in own Additional Tier 1 instruments	-		
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
41	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-		
	OF WHICH: …	-		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		
43	Total regulatory adjustments to Additional Tier 1 capital	-		
44	**Additional Tier 1 capital (AT1)**	**-**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**434,077**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-		
47	Directly issued capital instruments subject to phase out from Tier 2	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-		
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	12,466		B
51	**Tier 2 capital before regulatory adjustments**	**12,466**		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal cross-holdings in Tier 2 instruments	-		
54	Investments in the capital of banking, financial and insurance entities thatare outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
56	National specific regulatory adjustments	-		
57	**Total regulatory adjustments to Tier 2 capital**	**-**		
58	**Tier 2 capital (T2)**	**12,466**		
59	**Total capital (TC = T1 + T2)**	**446,543**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	8,348		
	OF WHICH: Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible	8,348		
60	**Total risk weighted assets**	**1,230,840**		

COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

As at 31 December 2017

Step 3: Composition of Capital Common Template (transition) as at 31 December 2017 (Continued)

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	35.27%		
62	Tier 1 (as a percentage of risk weighted assets)	35.27%		
63	Total capital (as a percentage of risk weighted assets)	36.28%		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.00%		
65	of which: capital conservation buffer requirement	2.50%		
66	of which: bank specific countercyclical buffer requirement (N/A)	0.00%		
67	of which: D-SIB buffer requirement (N/A)	0.00%		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	35.27%		
	National minima including CCB (if different from Basel 3)			
69	CBB Common Equity Tier 1 minimum ratio	9.00%		
70	CBB Tier 1 minimum ratio	10.50%		
71	CBB total capital minimum ratio	12.50%		
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	5,541		
73	Significant investments in the common stock of financials	44,824		
74	Mortgage servicing rights (net of related tax liability)	-		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-		
	Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	12,466		
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	12,998		
78	NA	-		
79	NA	-		
	Capital instruments subject to phase-out arrangements			
	(only applicable between 1 Jan 2020 and 1 Jan 2024)			
80	Current cap on CET1 instruments subject to phase out arrangements	-		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		
82	Current cap on AT1 instruments subject to phase out arrangements	-		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		
84	Current cap on T2 instruments subject to phase out arrangements	-		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities			

COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS

As at 31 December 2017

Disclosure template for main feature of regulatory capital instruments

1	Issuer	National Bank of Bahrain BSC
2	Unique identifier (Bahrain Bourse ticker)	NBB
3	Governing law of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group & solo
7	Instrument Type	Common Equity shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	BD 127.54 Million
9	Par Value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	Dividends
17	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Not applicable
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable